

***United States Court of Appeals
for the
District of Columbia Circuit***



**TRANSCRIPT OF
RECORD**

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United States Court of Appeals for the
District of Columbia

OCTOBER TERM, 1939.

No. 7556

FLOYD W. JEFFERSON, PETITIONER,

vs.

GUY T. HELVERING, COMMISSIONER OF INTER-
NAL REVENUE.

PETITION TO REVIEW THE DECISION OF THE UNITED STATES
BOARD OF TAX APPEALS

FILED DECEMBER 6, 1939

PRINTED FEBRUARY 6, 1940

JUDGE D. LAWRENCE GRONER
UNITED STATES COURT OF APPEALS
WASHINGTON, D. C.

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United States Court of Appeals for the District of Columbia

OCTOBER TERM, 1939.

No. 7556

FLOYD W. JEFFERSON, PETITIONER,

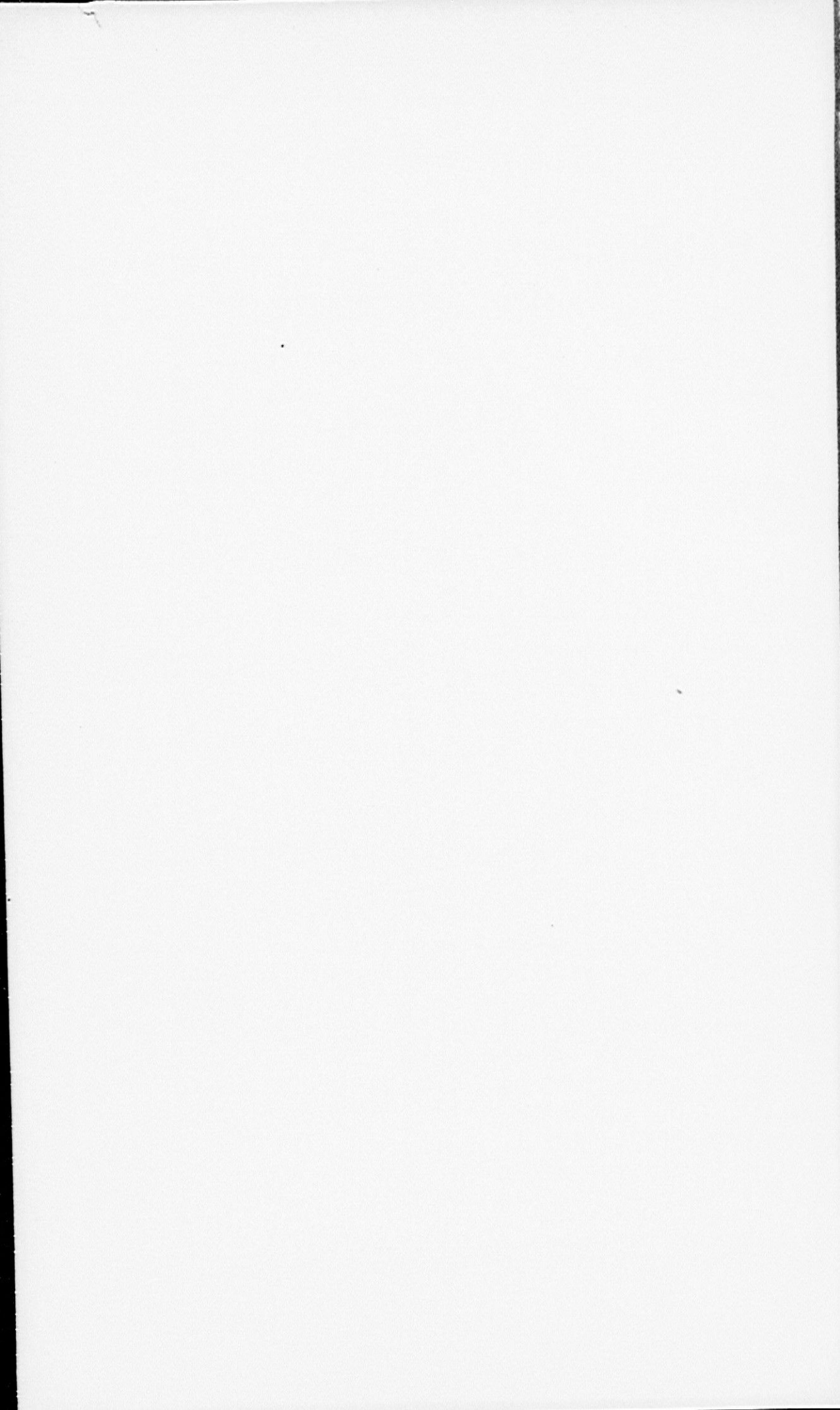
vs.

GUY T. HELVERING, COMMISSIONER OF INTER-
NAL REVENUE, RESPONDENT.

PETITION TO REVIEW THE DECISION OF THE UNITED STATES
BOARD OF TAX APPEALS

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FLOYD W. JEFFERSON, *Petitioner*,

v.

COMMISSIONER OF INTERNAL REVENUE, *Respondent*.

Appearances:

For Taxpayers: George D. Brabson, Esq., D. H. Blair, Esq.

For Comm'r.: Mr. Murdock.

Year 1935

Docket Entries

1938

May 17—Petition received and filed. Taxpayer notified.
(Fee not paid)

Jun. 3—Fee paid (check)

“ 3—Amended petition filed by taxpayer.

“ 4—Copy of petition and amended petition served on
General Counsel.

“ 22—Request to place on Washington, D. C. calendar
filed by taxpayer. 6/22/38 copy served.

“ 23—Notice of appearance of George D. Brabson as
counsel for taxpayer filed.

“ 23—Notice of appearance of D. H. Blair as counsel
for taxpayer filed.

Jul. 9—Answer to amended petition filed by General
Counsel.

“ 13—Copy of answer served on taxpayer. (Washington, D. C. calendar)

1939

Jan. 11—Hearing set Feb. 28, 1939.

Feb. 21—Motion for a continuance to April 17, 1939 filed
by taxpayer. 2/23/39 granted and continued
to April 24, 1939.

Apr. 13—Stipulation to submit on the attached stipulation
of facts and to set for hearing subsequent to
May 7, 1939 filed.

Apr. 13—Stipulation of facts filed.

“ 14—Order that this proceeding be assigned to Division No. 3 (Mr. Murdock) entered.

“ 18—Order that time for filing briefs be fixed in accordance with the rule of the Board and period for filing to start from April 18, 1939 entered.

May 17—Brief filed by taxpayer.

Jun. 5—Motion for leave to file brief, brief lodged as of June 3, 1939, filed by General Counsel. 6/5/39 granted.

“ 6—Copy of brief served on General Counsel.

Jul. 25—Opinion rendered, John E. Murdock, Div. 3. Decision will be entered for the respondent.

“ 29—Decision entered, J. E. Murdock, Div. 3.

Oct. 26—Stipulation of venue filed.

“ 28—Petition for review by U. S. Court of Appeals for the District of Columbia with assignments of error filed by taxpayer.

“ 28—Proof of service filed by taxpayer.

Dec. 2—Praecipe for record filed with proof of service thereon.

2 Endorsed: United States Board of Tax Appeals
Filed Jun 3 1938

Endorsed: Amended Petition Appeal Filed 5-17-38.

United States Board of Tax Appeals

Docket No. 93,586

FLOYD W. JEFFERSON, *Petitioner*

v.

COMMISSIONER OF INTERNAL REVENUE, *Respondent*

Amended Petition

The above named petitioner hereby petitions for a re-determination of the deficiency set forth by the Commissioner of Internal Revenue in his notice of deficiency (IT:A:1::GC:90D), dated March 11, 1938, and as a basis for his proceeding alleges as follows:

1. Petitioner is an individual, married, and residing at Short Hills, New Jersey, with principal place of business

at 90 Worth Street, New York, New York. The return for the period here involved was filed with the Collector of Internal Revenue for the Second District of New York.

2. The notice of deficiency (a copy of which is attached and marked Exhibit A), was mailed to petitioner on March 11, 1938.

3. The taxes in controversy are income taxes for the calendar year 1935, and involve a deficiency of \$1,773.09, substantially all of which is in controversy.

4. The determination of the tax set forth in the said notice of deficiency is based upon the following error:

(a) The Commissioner erred in disallowing as a deduction from petitioner's income for the year 1935 the sum of \$7,769.54 paid by petitioner during said year as an ordinary and necessary expense of doing business.

5. The facts upon which the petitioner relies as the basis of this proceeding are as follows:

(a)(1) Petitioner was, during the years 1934 and 1935, a member of a partnership known as Iselin-Jefferson Co. of 90 Worth Street, New York City. This partnership acted as selling agents for a number of textile mills and for some years had been selling agents for the Fitzgerald Cotton Mills and the Cochran Cotton Mills.

(a)(2) Before the Iselin-Jefferson Co. became the representative and selling agent for these two mills and would extend credit to them as factors, it was necessary to obtain some endorsement of their credit accounts, both with the Iselin-Jefferson Co. and with one of the New York City banks. Accordingly the petitioner agreed to endorse the credit accounts of the two mills, both with the Iselin-Jefferson Co. and at said bank. As the depression continued, however, and conditions became worse, the petitioner was called upon for some additional guaranty of his endorsement of these two accounts. Petitioner being then financially involved and unable to furnish any additional guaranty proposed to the bank that he assign all beneficial interest in certain policies of insurance on his life to the bank. This plan of a guaranty was accepted by the bank and, accordingly, in 1934, the said policies of insurance were assigned by the petitioner to the bank.

4 (a)(3) During 1934 petitioner paid \$5,891.34 in premiums upon said policies of insurance and charged the same in his accounts as an ordinary and necessary business expense in order to guarantee said accounts. In 1935, in order to maintain the business of these two mills, petitioner found it necessary to continue his guaranty and to continue the payment of the premiums upon said policies. In 1935 petitioner paid the sum of \$7,769.54 as premiums upon said policies of insurance and charged the same as an ordinary and necessary business expense in guaranteeing said accounts.

(a)(4) The total face amount of the policies issued upon petitioner's life in connection with the above guaranties was \$188,000. The total amount of the credit accounts for which these policies were assigned as a guaranty was in excess of \$700,000. At the time these policies of insurance were issued petitioner's liabilities exceeded his assets by several hundred thousand dollars.

(a)(5) Petitioner claimed the amounts above set forth as ordinary and necessary business expenses in his returns for 1934 and 1935. The Commissioner disallowed both amounts upon the ground that they were simply payments of insurance premiums. The disallowance of the sum of \$7,769.54 was the basis for the deficiency asserted against the petitioner for the year 1935 here in controversy.

WHEREFORE, petitioner prays that the Board may hear this proceeding and determine that there is no deficiency in income taxes against the petitioner for the year 1935, except as to an item of income of \$340.03 designated "Increase in partnership income" and as to another item of income of \$379.06 designated "Refund of processing taxes", both of which items are here conceded.

(s) FLOYD W. JEFFERSON
Petitioner

State of New York, County of New York, ss.

Floyd W. Jefferson, being duly sworn, says that he is the petitioner above named; that he has read the foregoing amended petition and is familiar with the statements contained therein, and that the statements contained therein

are true, except those stated to be upon information and belief, and that those he believes to be true.

(s) FLOYD W. JEFFERSON

Subscribed and sworn to before me this 31st day of May, 1938.

(s) CHARLES HERZOG

(Seal)

Notary Public.

N. Y. Co. Clk's No. 43, Reg. No. 9-H50.

Certificate filed in Nassau Co. No. 583.

Commission Expires March 30, 1939.

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Exhibit A

Mar 11 1938

IT:A:1

GC-90D

Mr. Floyd W. Jefferson

90 Worth Street

New York, New York

Sir:

You are advised that the determination of your income tax liability for the taxable year ended December 1935 discloses a deficiency of \$1,773.09 as shown in the statement attached.

In accordance with section 272(a) of the Revenue Act of 1934, notice is hereby given of the deficiency mentioned. Within ninety days (not counting Sunday or a legal holiday in the District of Columbia as the ninetieth day) from the date of the mailing of this letter, you may file a petition with the United States Board of Tax Appeals for a re-determination of the deficiency.

Should you not desire to file a petition, you are requested to execute the enclosed form and forward it to the Commissioner of Internal Revenue, Washington, D. C., for the attention of IT:1:P-7. The signing and filing of this form will expedite the closing of your return by permitting an early assessment of the deficiency, and will prevent the accumulation of interest, since the interest period termi-

nates thirty days after filing the form, or on the date assessment is made, which ever is earlier.

Respectfully,

GUY T. HELVERING,

Commissioner.

By (Sgd) JOHN R. KIRK

Deputy Commissioner

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Statement

IT:A:1

GC-90D

Mr. Floyd W. Jefferson

90 Worth Street

New York, New York

Tax Liability for Taxable Year Ended

December 31, 1935

	Liability	Assessed	Deficiency
Income tax	\$3,648.48	\$1,875.39	\$1,773.09

In making this determination of your income tax liability, careful consideration has been given to the internal revenue agent's report dated March 29, 1937; to your protests dated May 8, 1937, June 11, 1937, June 19, 1937, and to an undated protest filed December 7, 1937; to the statements made at the conferences held in the office of the agent in charge at 90 Church Street, New York, New York on June 11, 1937 and in this office on October 7, 1937.

Adjustments to Net Income

Net income as disclosed by return		\$22,691.65
Unallowable deductions and additional income		
(a) Insurance premiums disallowed	\$7,769.54	
(b) Increase in partnership income	340.03	
(c) Refund of processing taxes	379.06	8,488.63
Net income adjusted		\$31,180.28

Explanation of Adjustments

(a) This item represents insurance premiums claimed in your return which have been disallowed.

Section 24(a) of the Revenue Act of 1934 prohibits deductions of insurance premiums paid on Life insurance policies where the taxpayer is either directly or indirectly a beneficiary.

Facts in the instant case fail to show that in no event would you benefit from the policies. The premiums thus coming within the specific inhibitions of section 24(a)(4) may not be deducted as ordinary and necessary business expenses. Your contentions relative to this item have accordingly been denied. See appeal of J. H. Parker, 13 Board of Tax Appeals 115, and Klein et al. v. Commissioner, 84 Fed. (2d) 310.

8 (b) and (c) An examination of the return filed by the partnership of Iselin-Jefferson Company discloses that your share of the profits was \$30,250.98 instead of \$29,910.95 as reported in your return. The difference, \$340.03, has, therefore, been included in your income. Information on file in this office also discloses that during the year 1935 the partnership received a refund of processing taxes in the amount of \$664.93 of which your share is \$379.06. Your taxable income has accordingly been increased by \$379.06.

Computation of Tax

Adjusted net income		\$31,180.28
Less:		
Personal exemption and credit for dependents		2,900.00
Surtax net income		\$28,280.28
Less:		
Dividends	\$3,284.44	
Earned income credit		
10% of \$6,161.01	615.10	3,899.54
Net income subject to normal tax		\$24,380.74
Normal tax at 4% on \$24,380.74		975.23
Surtax on \$28,280.28		2,673.25
Correct income tax liability		\$3,648.48
Tax previously assessed, account #203326		1,875.39
Deficiency in tax		\$1,773.09

A copy of this letter has been mailed to your representative, Mr. George D. Brabson, 404 Transportation Building, Washington, D. C., in accordance with the authority conferred upon him in a power of attorney executed by you and on file with the Bureau.

9 Endorsed: United States Board of Tax Appeals
Filed Jul 9-1938

United States Board of Tax Appeals

Docket No. 93586

FLOYD W. JEFFERSON, *Petitioner,*

v.

COMMISSIONER OF INTERNAL REVENUE, *Respondent.*

Answer to Amended Petition

Comes Now the respondent, by his attorney, J. P. Wenchel, Chief Counsel, Bureau of Internal Revenue, and for answer to the amended petition filed in the above-entitled appeal, admits and denies as follows:

1. Admits the allegations contained in paragraph 1.
2. Admits the allegations contained in paragraph 2.
3. Paragraph 3 is denied, except it is admitted that income taxes for the calendar year 1935 in the amount of \$1,773.09 are in controversy.
4. (a) Denies that the respondent committed the error alleged in subparagraph (a) of paragraph 4.
5. (a)(1) through (a)(4) Denies the allegations contained in subdivisions (1) through (4) of subparagraph (a) of paragraph 5.
- (a)(5) Subdivision (5) of subparagraph (a) of paragraph 5 is denied, except it is admitted that petitioner claimed the amount of \$7,769.54 as ordinary and necessary business expense in his return for the year 1935.
- 10 6. Denies each and every material allegation not hereinbefore specifically admitted or denied.

Wherefore, it is prayed that the taxpayer's appeal be denied.

(Signed) J. P. WENCHEL

GWK

*Chief Counsel,
Bureau of Internal Revenue.*

Of Counsel:

L. H. RUSHBROOK,

D. D. SMITH,

Special Attorneys,

Bureau of Internal Revenue.

DDS:EMM 7-8-38

11 United States Board of Tax Appeals

FLOYD W. JEFFERSON, *Petitioner,*

v.

COMMISSIONER OF INTERNAL REVENUE, *Respondent.*

Docket No. 93586. Promulgated July 25, 1939.

Deduction—Insurance Premiums.—Where the petitioner used his life insurance policies to support his guarantee of the debts of two customers of his partnership and it does not appear whether or not the proceeds would be needed to pay those debts, the premiums on the policies are not deductible. Sec. 24 (a) (4), Revenue Act of 1934.

Opinion.

MURDOCK: The Commissioner determined a deficiency in income tax of \$1,773.09 for the year 1935. The only issue for decision is whether the petitioner is entitled to deduct, as an ordinary and necessary expense, a part of \$7,769.54 paid as premiums on insurance upon his own life. The facts are found as stipulated by the parties.

The petitioner, an individual, was a member of the partnership of Iselin-Jefferson Co., during 1935 and for several years prior thereto. The other partner, William Iselin & Co., likewise a partnership, furnished most of the capital, while the petitioner furnished valuable personal service and contacts with textile mills. The partnership acted as selling agent for textile mills, including the Fitzgerald Cotton Mills and Cochran Cotton Mills. These two mills were

heavily indebted in 1931 to William Iselin & Co. and to a bank. The mills needed additional funds to operate. The "petitioner's relationship as a partner in Iselin-Jefferson Company had also become involved" so that the other partner was considering a dissolution. The petitioner had to furnish some additional guarantee in order to retain the accounts of the two mills and thus continue the partnership, which was his only source of livelihood. He, therefore, guaranteed the debts of the two mills to his partner and the bank, assigned a life insurance policy on his life for \$78,000 to the bank, and named his partner as beneficiary in policies on his life for \$100,000. He agreed to pay the premiums on the policies. No change was made in the policies thereafter through 1935. The petitioner paid the pre-

12 miums on those policies and also on another policy during 1935. The petitioner does not contend that the premium upon the latter policy is deductible. The total premiums paid on all policies in 1935 was \$7,769.54, of which \$314.40, apparently, is not now claimed as a deduction. The assets of the petitioner in 1935 were worth about \$161,388.36, excluding the policies for \$178,000, above mentioned, and his interest in the partnership. The debts of the two mills which he had guaranteed amounted to \$544,938.88 in 1935. He also owed \$159,000 to his partnership and about \$20,000 to others in 1935. The financial condition of the two mills is not disclosed in this record. The petitioner deducted \$7,769.54 on his return for 1935 as an ordinary and necessary expense of his business and the Commissioner disallowed the deduction in determining the deficiency. Other adjustments are not contested.

Section 24 (a) of the Revenue Act of 1934 provides that no deduction shall be allowed for "premiums paid on any life insurance policy covering the life of any officer or employee, or of any person financially interested in any trade or business carried on by the taxpayer, when the taxpayer is directly or indirectly a beneficiary under such policy." The petitioner cites some departmental rulings which, if they were not distinguishable, would only show inconsistency upon the part of the Commissioner and would not be authority for requiring the Commissioner to allow the deduction claimed here. Furthermore, the cases ruled upon are distinguishable. Two of them involved premiums upon

surety bonds given to indemnify an employer in case of loss suffered as a result of the employment. In none of the cases could the proceeds of the bonds or insurance benefit the taxpayer by satisfying his debts or otherwise. The cases of *Omaha Elevator Co.*, 6 B. T. A. 817, and *L. Hyman & Co.*, 21 B. T. A. 159, mentioned in the petitioner's brief, do not help him.

The petitioner attempts to show some analogy between his case, where he was trying to protect his source of livelihood, and cases where an employer pays premiums upon life insurance for employees. Cf. *Berizzi Brothers Co.*, 16 B. T. A. 1307; art. 24-3, Regulations 84. The analogy is not apparent to the Board.

The respondent contends that the deduction is expressly denied by section 24 (a) (4). He argues that the petitioner would be benefited directly or indirectly within the meaning of the act if the proceeds of the policies were used to discharge the indebtedness of the petitioner. *Edwin M. Klein*, 31 B. T. A. 910; affd., 84 Fed. (2d) 310; *Rieck v. Heiner*, 25 Fed. (2d) 453; certiorari denied, 277 U. S. 608. See also *Benjamin Barron*, 14 B. T. A. 1022. Cf. *Joseph Nussbaum*, 19 B. T. A. 868. The policies in the *Klein*, *Rieck*, 13 and *Barron* cases were used as collateral by a primary debtor, while here the petitioner used them to support his guarantee. This difference may or may not be important. A better case for the respondent is that of *J. H. Parker*, 13 B. T. A. 115. The record does not indicate that the two mills would never be able to discharge their own debts and thus relieve the petitioner from his guarantee. If he were thus relieved, could he contend that these premiums were paid upon policies under which he would not benefit? This record does not show that he would not benefit directly or indirectly from these policies. Since he has failed to show that section 24 (a) (4) is inapplicable, consideration of whether the payments were ordinary and necessary expenses of any business of the petitioner becomes unnecessary. Cf. *Joseph Nussbaum*, *supra*.

Decision will be entered for the respondent.

12 FLOYD W. JEFFERSON VS. GUY T. HELVERING.

14 United States Board of Tax Appeals
Washington

Docket No. 93586.

FLOYD W. JEFFERSON, *Petitioner*,

v.

COMMISSIONER OF INTERNAL REVENUE, *Respondent*.

Decision

Pursuant to the determination of the Board, as set forth in its Opinion, promulgated July 25, 1939, it is

Ordered and Decided: That there is a deficiency in income tax of \$1,773.09 for the year 1935.

Enter:

Entered Jul 29 1939

(Signed) J. E. MURDOCK
Member.

(Seal)

15 United States Board of Tax Appeals Filed Oct 26
1939

United States Board of Tax Appeals

Board of Tax Appeals
Docket No. 93586

FLOYD W. JEFFERSON, *Petitioner*,

v.

COMMISSIONER OF INTERNAL REVENUE, *Respondent*.

Stipulation

It is hereby stipulated by and between the parties hereto, acting through their respective counsel of record, that pursuant to the provisions of Sec. 1002, Revenue Act of 1926, as amended by section 519(a), Revenue Act of 1934 (48 Stat. 760, 26 U. S. C. A. sec. 1225), the appeal of the taxpayer from the final order and decision of the Board of Tax

Appeals heretofore entered herein on July 29, 1939, may be taken to the United States Court of Appeals for the District of Columbia.

GEORGE D. BRABSON
Transportation Building,
Washington, D. C.
Attorney for Petitioner

SAMUEL I. CLINE, JR.
Attorney for Respondent

16 Endorsed: United States Board of Tax Appeals.
Filed Oct 28 1939

United States Board of Tax Appeals
Board of Tax Appeals Docket No. 93586
FLOYD W. JEFFERSON, *Petitioner on Review,*

v.

GUY T. HELVERING, Commissioner of Internal Revenue,
Respondent on Review.

Petition for Review and Assignments of Error.

To the Honorable Judges of the United States Court of Appeals for the District of Columbia:

Now comes Floyd W. Jefferson in support of this his petition for review, filed pursuant to the provisions of Secs. 1001, 1002 and 1003 of the Revenue Act of 1926, as amended by Sec. 1101 of the Revenue Act of 1932 and by Sec. 519 of the Revenue Act of 1934, and pursuant to a stipulation of venue heretofore filed by the parties herein under date of October 26th, 1939, for the review of the decision and final order of the Board of Tax Appeals entered the 29th day of July, 1939, determining and ordering a deficiency in income taxes against the petitioner for the calendar year 1935 in the amount of \$1,773.09; and shows to the Court as follows:

I

Your petitioner on review, hereinafter referred to as the taxpayer, is an individual residing at Short Hills, New Jersey, but with his office and principal place of business in New York, N. Y., and filed his income tax return for the

17 year in question with the Collector of Internal Revenue for the Second District of New York, whose office is located in the City of New York.

Your respondent on review, hereinafter referred to as the Commissioner, is the duly appointed, qualified and acting Commissioner of Internal Revenue of the United States.

II

The Commissioner determined a deficiency in Federal income taxes against the taxpayer for the calendar year 1935 in the amount of \$1,773.09, and on March 11, 1938, in accordance with the provisions of Sec. 272(a), Revenue Act of 1934, sent to the taxpayer by registered mail a notice of said deficiency. Thereafter on May 17, 1938, taxpayer filed his appeal from said notice of deficiency to the United States Board of Tax Appeals, being Docket No. 93586. On June 3, 1938, taxpayer filed an amended petition, severing said appeal from another appeal for a prior year which had been improperly joined in the first petition.

On July 25, 1939, the Board of Tax Appeals promulgated its opinion, and on July 29, 1939, entered its final order and decision in said appeal wherein and whereby the Board ordered and decided that the deficiency determined by the Commissioner was correct, and that there was a deficiency against the taxpayer for the calendar year 1935 in the amount of \$1,773.09.

The opinion of the Board of Tax Appeals is reported in 40 B. T. A. —, No. 50.

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III

The nature of the controversy is as follows:

The taxpayer for several years prior to 1935 was a member of a partnership known as Iselin-Jefferson Company, of New York City. Iselin-Jefferson Company was composed of two partners, namely, Wm. Iselin & Company, which was another partnership, and the taxpayer.

The majority of the capital of Iselin-Jefferson Company was furnished by Wm. Iselin & Company, and the taxpayer's contribution to the partnership of Iselin-Jefferson Company was the personal services which he was able to give it as well as his contacts and associations with various textile mills. Taxpayer had had many years' experience

in the textile business and his knowledge and experience in that business made his services of great value to Iselin-Jefferson Company. Taxpayer was personally known to many textile concerns and had contacts particularly with Southern textile manufacturers, which were of value to the partnership of Iselin-Jefferson Company.

Iselin-Jefferson Company acted as cotton factors and selling agents for various textile mills, most of which were in the South. The principal mill accounts which the taxpayer had procured for Iselin-Jefferson Company were the Fitzgerald Cotton Mills of Fitzgerald, Georgia, and Cochran Cotton Mills of Cochran, Georgia.

In 1931 these two cotton mills were heavily indebted to Wm. Iselin & Company for large amounts advanced for their accounts. The two cotton mills were likewise

19 indebted in large amounts to the Chemical Bank & Trust Company of New York, and were totally unable to continue further operations unless and until they could obtain further credits or financing. The two mills approached the taxpayer as their factor and advised him of their serious financial condition, and that they would be unable to operate any longer without financial assistance. Taxpayer's relationship at that time with the partnership of Iselin-Jefferson Company had also become involved financially, and the dissolution of the partnership was being seriously considered by Wm. Iselin & Company and by Oliver Iselin, the principal partner thereof.

Taxpayer was accordingly confronted with the necessity of furnishing some additional guaranty which would enable him to maintain and retain the two accounts of the Fitzgerald Cotton Mills and the Cochran Cotton Mills, or else be faced with the threatened dissolution of Iselin-Jefferson Company partnership.

To enable these two cotton mills to continue operations and to retain their accounts for Iselin-Jefferson Company, taxpayer personally agreed to guarantee those two accounts to Wm. Iselin & Company and to the Chemical Bank & Trust Company.

In order to indemnify Wm. Iselin & Company from loss by reason of the two cotton mill accounts aforesaid, taxpayer on January 29, 1931, made Wm. Iselin & Company the sole beneficiary of certain policies of insurance on his

own life aggregating \$100,000, and agreed to maintain said insurance in said amounts and to pay the premiums thereon as long as the two cotton mills remained indebted to it as aforesaid.

In order to indemnify the Chemical Bank & Trust Company from loss by reason of the two mill accounts aforesaid, taxpayer on May 3, 1932, made an irrevocable assignment of a policy of life insurance on his own life in the amount of \$78,000, and agreed to maintain said insurance in said amount and to pay all premiums thereon as long as the two cotton mills remained indebted to it as aforesaid.

At the time the said contracts of indemnity were made the two cotton mills were indebted to Wm. Iselin & Company and to Chemical Bank & Trust Company in the total amount of \$544,938.88.

No change was made in said policies thereafter, the indebtedness of the two cotton mills to Wm. Iselin & Company and Chemical Bank & Trust Company remained as aforesaid, and taxpayer has continued to pay the premiums on said policies ever since. In 1935, the year in question, taxpayer paid total premiums on said policies amounting to \$7,455.14 as part of the expense of his interest in the partnership of Iselin-Jefferson Company.

At the end of 1935 all of the indebtedness of the two cotton mills was still outstanding and unpaid. The taxpayer was further indebted to Iselin-Jefferson Company in the amount of \$159,000, and to certain other creditors in the amount of \$20,208, making his total liabilities in excess of \$724,146.88, while his assets amounted to only \$161,388.36 as of that date, leaving the taxpayer totally insolvent.

At the end of 1935 taxpayer charged off the amount of insurance premiums paid by him as the cost of his indemnity contracts with Wm. Iselin & Company and with Chemical Bank & Trust Company as a business expense, and claimed said amount in his income tax return for 1935 as an ordinary and necessary expense of doing business. The Commissioner disallowed the item and the taxpayer appealed to the Board of Tax Appeals.

In the proceedings before the Board of Tax Appeals the taxpayer contended that under his indemnity contracts with

Wm. Iselin & Company and Chemical Bank & Trust Company he was obligated and required to pay the said amount of \$7,455.14 as premiums in order to keep the two indemnity contracts in force and to maintain the two mill accounts, otherwise the two mills would have ceased operation and the partnership of Iselin-Jefferson Company would have been dissolved, and petitioner's interest therein lost; that the payment of said premiums was, therefore, an ordinary and necessary business expense and was deductible as such under the provisions of the revenue acts. The Commissioner admitted the facts as aforesaid, but contended that since the amount of \$7,455.14 was paid in the form of premiums upon life insurance upon the taxpayer's life, therefore it was not deductible.

The Board held that the taxpayer had failed to prove that he was not directly or indirectly a beneficiary under
22 said policies of insurance, and hence the premiums
were not deductible under the provisions of Sec.
24(a)(4) of the Revenue Act of 1934.

IV

The taxpayer states that in the record and proceedings before the Board of Tax Appeals and in the decision and order of determination, manifest error occurred and intervened to the prejudice of the taxpayer, and the taxpayer accordingly assigns the following errors which he avers occurred in said record, proceedings, decision and final order entered by the Board, to wit:

1. The Board erred in holding that the taxpayer had failed to prove that he was not directly or indirectly a beneficiary under the policies of insurance.

2. The Board erred in holding that the premiums of \$7,455.14 were paid by the taxpayer as insurance premiums only, rather than as premiums under contracts of indemnity.

3. The Board erred in holding that premiums paid by the taxpayer to insurance companies for the purpose of indemnifying creditors against loss under contracts with the taxpayer, were not ordinary and necessary expenses of doing business.

4. The Board erred in holding that the taxpayer had failed to prove that the sum of \$7,455.14 was an ordinary and necessary business expense.

5. The Board erred in failing to hold that the assignments in question were irrevocable and that the taxpayer could not possibly have been a beneficiary under said policies of insurance.

23 5. The Board erred in failing to hold that the taxpayer or his estate could not possibly have benefited from said policies of insurance under the facts in this case.

7. The Board erred in failing to hold that the payment of said premiums was an ordinary and necessary expense of doing business.

8. The Board erred in failing to hold for the taxpayer upon the facts of record.

Wherefore the taxpayer petitions that the decision and final order of the Board of Tax Appeals be reviewed by the United States Court of Appeals for the District of Columbia, that a transcript of record be transmitted to the Clerk of said Court for filing, and that appropriate action be taken to the end that the errors complained of may be reviewed and corrected by the said Court.

(s) D. H. BLAIR

(s) GEORGE D. BRABSON, JR.
Attorneys for Petitioner

STATE OF NEW YORK,
County of New York, ss

Personally appeared before me, a Notary Public in and for said State and County, Floyd W. Jefferson, who being duly sworn deposes and says that he is the petitioner and that he has read the foregoing petition for review, and that the facts therein set forth are true to the best of his knowledge, information and belief, and that this petition is
24 not filed for the purpose of delay, but because petitioner believes he is justly entitled to the relief sought.

(sgd) FLOYD W. JEFFERSON

Sworn to and subscribed before me this 27th day of October, 1939.

(Sgd) CHARLES HERZOG (Seal)
Notary Public

Commission expires March 30, 1941.

25 Endorsed: United States Board of Tax Appeals
Filed Oct 28 1939

Notice of Filing Petition for Review

(Filed October 28, 1939)

In the United States Court of Appeals
for the District of Columbia

Board of Tax Appeals
Docket No. 93586

FLOYD W. JEFFERSON, *Petitioner on Review,*

v.

GUY T. HELVERING, Commissioner of Internal Revenue,
Respondent on Review.

Hon. Guy T. Helvering,
Commissioner of Internal Revenue,
Washington, D. C.

Sir:

You are hereby notified that the above named petitioner did on the 28th day of October, 1939, file with the Clerk of the United States Board of Tax Appeals of Washington, D. C., a petition for review by the United States Court of Appeals for the District of Columbia, of the decision of the Board heretofore rendered in the above entitled case. A copy of the petition for review and the assignments of error as filed is hereto attached and served upon you.

D. H. BLAIR

GEORGE D. BRABSON

404 Transportation Building
Washington, D. C.

*Attorneys for Petitioner on
Review*

Personal service of the above and foregoing Notice, together with copy of the petition for review and assignments of error mentioned therein, is hereby acknowledged this 28th day of October, 1939.

J. P. WENCHEL

*Chief Counsel, Bureau of In-
ternal Revenue*

Endorsed: United States Board of Tax Appeals
Filed Apr 13 1939

United States Board of Tax Appeals

Docket No. 93586.

FLOYD W. JEFFERSON, *Petitioner*,

v.

COMMISSIONER OF INTERNAL REVENUE, *Respondent*.

Stipulation of Facts

It is hereby stipulated and agreed by and between the parties hereto, by their respective attorneys, that the following facts may be taken as true, and that the same may be considered by the Board as offered in evidence by the parties to these proceedings; provided, however, that this stipulation shall be without prejudice to the right of either of the parties to these proceedings to introduce other and further evidence not inconsistent with the facts herein stipulated to be taken as true.

1. Floyd W. Jefferson, hereinafter referred to as the petitioner or taxpayer, is a citizen and resident of Short Hills, New Jersey. He filed his Federal income tax return for the calendar year 1935 (Exhibit A, hereto attached) with the Collector of Internal Revenue for the Second District of New York.

2. The deficiency herein involved is for the calendar year 1935 in the amount of \$1,773.09. Such deficiency arises from three adjustments to petitioner's net income. The only issue in controversy is the adjustment designated in the notice of deficiency (Exhibit B, hereto attached) as

“(a) Insurance Premiums Disallowed, \$7,769.54”.

27 3. Petitioner for several years prior to 1935 was a member of a partnership known as Iselin-Jefferson Company of 90 Worth Street, New York, New York. Iselin-Jefferson Company was composed of two partners, namely, William Iselin and Company, which was another partnership, and the petitioner.

4. The largest part of the capital of Iselin-Jefferson Company was furnished by William Iselin and Company, and the petitioner's contribution to the partnership was the personal services which he was able to give to it, as well as his contacts and associations with various textile mills.

The petitioner had had a great deal of experience in the textile business, and his knowledge and experience in the business made his services of value to the Iselin-Jefferson Company. The petitioner was acquainted with various textile manufacturers and had contacts particularly with southern textile manufacturers which were of value to the partnership of Iselin-Jefferson Company.

5. The Iselin-Jefferson Company acts as selling agent for numerous textile mills, most of which are in the South. Among the mills which the partnership represented were the Fitzgerald Cotton Mills of Fitzgerald, Georgia, and the Cochran Cotton Mills of Cochran, Georgia.

6. In 1931 these two cotton mills were heavily indebted to William Iselin and Company for large sums of money advanced for the accounts of the two mills by William Iselin and Company as factor. The two cotton mills were likewise indebted in large amounts to the Chemical Bank and Trust Company of New York, New York. In 1931 both mills were seriously pressed for funds to operate and were

unable to obtain further credits or financing on their own account, and were thus compelled to obtain credits through their factors or agents handling their output. Petitioner's relationship as partner in Iselin-Jefferson Company had also become involved, and the dissolution of the partnership was being seriously considered by William Iselin and Company, and by Oliver Iselin, the principal partner thereof. Petitioner was accordingly confronted with the necessity of furnishing some additional guaranty which would enable him to retain the two accounts of Fitzgerald Cotton Mills and Cochran Cotton Mills, or else be faced with the threatened dissolution of the Iselin-Jefferson Company partnership, which was the only source of livelihood left to him.

7. In order to obtain or to keep the agencies for the Fitzgerald Cotton Mills and the Cochran Cotton Mills, the taxpayer personally guaranteed the debts of the Fitzgerald Mills to William Iselin and Company and the Chemical Bank and Trust Company of New York, and the debts of the Cochran Mills to William Iselin and Company. Taxpayer had several years previously acquired certain stock in the Exposition Cotton Mills of Atlanta, Georgia, in order to become its factory representative and selling agent. That

stock was purchased on a yearly installment basis, and upon being unable to meet the annual installments the taxpayer in 1925, in order to indemnify the creditor, the Georgia Holding Company, took out a \$10,000 life insurance policy with the Jefferson Standard Life Insurance Company of Greensboro, North Carolina, naming the Georgia Holding Company as beneficiary (Exhibit C, hereto attached). Taxpayer's indebtedness to the Georgia Holding Company was paid in 1937 and on April 8, 1937, the beneficiary of such policy was changed to taxpayer's estate. On June 4, 1937, Oliver Iselin, taxpayer's business partner, was named as beneficiary in the policy by the taxpayer to secure his guarantee of the Fitzgerald Cotton Mills and Cochran Cotton Mills accounts to William Iselin and Company.

29 A policy for \$78,000 issued by the Jefferson Standard Life Insurance Company of Greensboro, North Carolina, on the life of the taxpayer was assigned by him to the Chemical Bank and Trust Company on May 3, 1932, further to secure his guarantee of the Fitzgerald Cotton Mills debt (Exhibit D, hereto attached). Four other policies of a total face value of \$100,000 were issued by the Pilot Life Insurance Company of Greensboro, North Carolina, on the life of the taxpayer. (Exhibits E, F, G and H, hereto attached). On January 29, 1931, the taxpayer changed the beneficiary in such policies (at that time his estate) to William Iselin and Company, which was done to secure the taxpayer's personal guarantee to William Iselin and Company of the obligations above mentioned.

8. The total amount of the accounts of the two cotton mills with William Iselin and Company and with Chemical Bank and Trust Company during the year 1935 is shown in the attached financial statement of the taxpayer (Exhibit I, hereto attached).

9. During the year 1935 petitioner paid the premiums due upon the policies of insurance above set forth in the sum of \$7,769.54, and charged the same on his books as a business expense. Petitioner claimed that amount as a deduction in his Federal income tax return for the calendar year 1935 (Exhibit A, hereto attached) as an ordinary and necessary business expense. The Commissioner of Internal

Revenue disallowed the item for the reasons set forth in the notice of deficiency (Exhibit B).

GEORGE D. BRABSON,
Attorney for Petitioner.

Signed J. P. WENCHEL, y
Chief Counsel,
Bureau of Internal Revenue.

JDH/jsf 5/10/39

Exhibit "A"

Form 104
TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

272 (Auditor's Stamp) 34
1773.09

RR 3/29/37
4C #1
3/11/38

RETURN FORM MARKED "DUPLICATE" MUST BE FILED WITH THIS ORIGINAL RETURN

INDIVIDUAL INCOME TAX RETURN

FOR NET INCOMES FROM SALARIES OR WAGES OF MORE THAN \$5,000
AND INCOMES FROM BUSINESS, PROFESSION, RENTS, OR SALE OF PROPERTY

For Calendar Year 1935

or fiscal year begun 1935, and ended 1936
File This Return Not Later Than the 15th Day of the Third Month Following the Close of the Taxable Year

PRINT NAME AND ADDRESS PLAINLY BELOW

Floyd W. Jefferson
(Name) (Both husband and wife, if this is a joint return)
90 North Street,
(Street and number, or rural route)
New York, N. Y.
(Post office) (County) (State)

Do Not Write in These Spaces

File Code **1-54**
Serial Number **203326**
District
(Collector's Stamp)
Cash Check M. O. **8** of Ind. **8**
Prepayment **8**

1. State whether you are (a) a citizen of the United States, or (b) a resident alien, in which Collector's office was it sent? **2nd N.Y.**
2. Were you married and living with husband or wife during your taxable year? **Yes**
3. Is this a joint return of husband and wife? **No**
4. State name of husband or wife if a separate return was made and the Collector's office to which it was sent: **Violet W. Jefferson - 2nd N.Y.**
5. If not married, were you during your taxable year supporting in your household one or more persons closely related to you? **No**
6. How many dependent persons (other than husband or wife) under 19 years of age or incapable of self-support received their chief support from you during your taxable year? **One**
7. If your status in respect to question 3, 4, or 5 changed during the year, state date and nature of change
8. State whether your books are kept on cash or accrual basis **Cash**
9. State principal occupation or profession accounting for salaries, wages, commissions, fees, etc., in item 1 **Partner**
10. Did you transfer to or receive from any one person money or property in excess of \$5,000 during the calendar year 1935, without an adequate and full consideration in money or money's worth? **No**
11. If so, did you file a gift tax return on Form 700 or an information return on Form 707? (Answer "yes" or "no")
12. Did any person or persons advise you in respect of any question or matter affecting any item or schedule of this return, or assist or advise you in the preparation of this return, or actually prepare this return for you? **Yes** If so, give the name and address of such person or persons and state the nature and extent of the assistance or advice received by you and the item or schedule in respect of which the assistance or advice was received: If this return was actually prepared by any person or persons other than yourself, state the source of the information reported in this return and the manner in which it was furnished to or obtained by such person or persons: **J.B. Smith, prepared return from data furnished**
13. Did you make a return of information on Forms 1006 and 1028 (see instruction 31) for the calendar year 1935? (Answer "yes" or "no") **No**

INCOME

1. Salaries, Wages, Commissions, Fees, etc. (State name and address of employer)
Directors Fees \$ **25 00**
2. Net profit (or loss) from Business or Profession. (From Schedule A)
3. Interest on Bank Deposits, Notes, Corporation Bonds, etc. (except interest on tax-free covenant bonds) (State kind of business)
453 26
4. Interest on Tax-free Covenant Bonds Upon Which a Tax was Paid at Source
5. Income (or Loss) from Partnerships, Syndicates, Pools, etc. (Furnish name, address, and kind of business)
Iselin-Jefferson Co., 90 North St., New York, N.Y. **29 910 95**
6. Income from Fiduciaries. (Furnish name and address)
7. Rents and Royalties. (From Schedule B)
8. Capital Gain (or Loss). (From Schedule C)
9. Taxable Interest on Liberty Bonds, etc. (From Schedule D, Line (g))
10. Dividends on Stock of: (a) Domestic Corporations subject to taxation under Title I of 1934 Act.
(b) Domestic Corporations not subject to taxation under Title I of 1934 Act.
(c) Foreign Corporations
On Matured Life Insurance **3 284 44**
11. Other Income. (State nature) (Use separate schedule, if necessary)
12. TOTAL INCOME IN ITEMS 1 TO 11. **34 507 95**

DEDUCTIONS

13. Interest Paid. (Explain in Schedule F)
14. Taxes Paid. (Explain in Schedule F)
15. Losses by Fire, Storm, etc. (Explain in table at foot of page 2)
16. Bad Debts (including bonds determined to be worthless during taxable year). (Explain in Schedule F)
17. Contributions. (Explain in Schedule F)
18. Other Deductions Authorized by Law (including stock determined to be worthless during taxable year). (Explain in Schedule F)
19. TOTAL DEDUCTIONS IN ITEMS 13 TO 18. **11 516 50**
20. NET INCOME (Item 12 minus Item 19). **22 991 45**

COMPUTATION OF TAX (See Instruction 23)

21. Net income (Item 20 above) **22 991 45**
22. Less: Personal exemption **\$ 2500.00**
23. Credit for Dependents (Explain in Schedule F) **400.00**
24. Balance (Surplus net income) **19 791 45**
25. Less: Interest on Liberty bonds, etc. (Item 9) **3,284.44**
26. Dividends. (Item 10 (a)) **445.33**
27. Earned income credit. (See instruction 22) **3 729 77**
28. Balance subject to normal tax **16 061 89**
29. Normal tax (4% of Item 28) **\$ 642 48**
30. Surplus on Item 24. (See instruction 23) **1 232 91**
31. Total tax (Item 29 plus Item 30) **\$ 1 875 39**
32. Less: Income tax paid at source (2% of Item 4)
33. Income tax paid to a foreign country or U. S. possession
34. Balance of Tax. (Item 31 minus Items 32 and 33) **\$ 1 875 39**

AFFIDAVIT (See instruction 27)

I/we swear (or affirm) that this return (including its accompanying schedules and statements, if any) has been examined by me/us, and to the best of my/our knowledge and belief is a true, correct, and complete return, made in good faith, for the taxable year stated, pursuant to the Revenue Act of 1934 and the Regulations issued thereunder.

Sworn to and subscribed by **Floyd W. Jefferson** before **James B. Smith**
me this **13th** day of **March**, 1936.
James B. Smith
(Signature of officer administering oath)
A RETURN MADE BY AN AGENT MUST BE ACCOMPANIED BY POWER OF ATTORNEY (See Inst. 27)

AFFIDAVIT (See instruction 27)

I/we swear (or affirm) that I/we prepared this return for the person or persons named herein and that the return (including its accompanying schedules and statements, if any) is a true, correct, and complete statement of all the information respecting the income tax liability of the person or persons for whom this return has been prepared of which I/we have any knowledge.

Sworn to and subscribed before me this **13th** day of **March**, 1936.

NOTARY PUBLIC, New York County
N.Y. Co. Clk. No. 327, Reg. No. 7-0-327
Commission expires March 30, 1937

James B. Smith
280 Broadway, New York, N.Y.

SCHEDULE A—PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION (See Instruction 2)

1. Total receipts from business or profession (state kind of business):				2. Labor				10. Salaries not included as "Labor" in Line 2 (do not deduct compensation for your services)			
Cost of Goods Sold				3. Material and supplies				11. Interest on business indebtedness to others			
4. Merchandise bought for sale				5. Other costs (itemize below or on separate sheet)				12. Taxes on business and business property			
6. Plus inventory at beginning of year				7. TOTAL (Lines 2 to 6)				13. Losses (explain in table at foot of page)			
8. Less inventory at end of year				9. Net Cost of Goods Sold (Line 7 minus Line 8)				14. Bad debts arising from sales or services			
								15. Depreciation, obsolescence, and depletion (explain in table provided at foot of page)			
								16. Rent, repairs, and other expenses (itemize below or on separate sheet)			
								17. TOTAL (Lines 10 to 16)			
								18. TOTAL DEDUCTIONS (Line 9 plus Line 17)			
								19. Net Profit (or Loss) (Line 1 minus Line 18) (Enter as Item 2)			

Enter "C", "C or M", on Lines 6 and 8 to indicate whether inventories are valued at cost, or cost or market, whichever is lower.

Explanation of deductions claimed on Lines 5 and 16

SCHEDULE B—INCOME FROM RENTS AND ROYALTIES (See Instruction 7)

1. Kind of Property	2. Amount Received	3. Cost or Value as of March 1, 1913, Whichever Greater	4. Depreciation* (Explain in table at foot of page)	5. Repairs	6. Other Expenses (Itemize below)	7. Net Profit (Enter as Item 7)
	\$	\$	\$	\$	\$	\$

Explanation of deductions claimed in Column 6

SCHEDULE C—CAPITAL GAINS AND LOSSES (From Sales or Exchanges Only) (See Instruction 8)

1. Description of Property and Period Held	2. Date Acquired	3. Date Sold or Exchanged	4. Gross Sales Price (Contract price)	5. Cost or March 1, 1913, Value if Acquired Before That Date (Indicate basis)**	6. Cost of Improvements Subsequent to Acquisition or March 1, 1913 (Furnish details)	7. Depreciation Allowed (or Allowable) From Acquisition or March 1, 1913 (Furnish details)	8. Gain or Loss	9. Percentage of Gain or Loss to be Taken Into Account	10. Gain or Loss to be Taken Into Account
(a) 1 year or less:	Mo. Day Year	Mo. Day Year	\$	\$	\$	\$	\$	100	\$
(b) Over 1 year but not over 3 years:								80	
(c) Over 3 years but not over 5 years:	7/27/35	9/1/35	79.66	32.50	103hs. Southeastern Cottons, Inc.	47.16	47.16	60	28.30
(d) Over 5 years but not over 10 years:								40	
(e) Over 10 years:								30	
(f) TOTAL GAINS AND LOSSES (Enter net amount as Item 8) (Capital losses are allowable only to the extent of \$2,000 plus capital gains)									\$ 28.30

*In reporting sales or exchanges of capital assets attach separate schedule, if necessary, for transactions coming within each of the 5 periods, and transfer gains and losses for each period to Column 10 above.

**Cost of property must be entered in Column 5 if a loss is claimed in Column 8.

State (1) how property was acquired.

Every sale or exchange of stock should be reported in detail, including name and address of corporation, class of stock, number of shares, capital changes affecting basis (stock dividends, other nontaxable dividends, stock rights, etc.).

SCHEDULE D—INTEREST ON LIBERTY BONDS AND OTHER OBLIGATIONS OR SECURITIES (See Instruction 9)

1. Obligations or Securities	2. Amount Owed at End of Year	3. Interest Received or Accrued During the Year	4. Principal Amount Exempt from Taxation	5. Amount Owed at End of Year	6. Interest on Amount in Excess of Exemption
(a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions	\$	\$	All	XXXXXX	XXXXXX
(b) Obligations issued under Federal Farm Loan Act, or under such Act as amended			All	XXXXXX	XXXXXX
(c) Liberty 3 1/4% Bonds and other obligations of United States issued on or before September 1, 1917			All	XXXXXX	XXXXXX
(d) Treasury Notes, Treasury Bills, and Treasury Certificates of Indebtedness			All	XXXXXX	XXXXXX
(e) Liberty 4% and 4 1/4% Bonds; U. S. Savings Bonds; Treasury Bonds			\$5,000		\$
(f) Obligations of instrumentalities of the United States (other than obligations to be reported in (b) above)			None		
(g) TOTAL (enter total of column 6 as Item 9)					\$

SCHEDULE E—INCOME FROM DIVIDENDS

Itemize all dividends received during the year, stating amounts and names and addresses of corporations declaring the dividends:

Item 10 (a) - Dividends (See Schedule) \$3,284.44

SCHEDULE F—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 1, 13, 14, 16, 17, AND 18, AND CREDIT CLAIMED IN ITEM 23

Item 14 - Taxes Paid (See Schedule) \$1,533.90
 Item 17 - Contributions do 145.02
 Item 18 - Other Deductions do 7,769.54

EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SCHEDULES A AND B

1. Kind of Property (If buildings, state material of which constructed)	2. Date Acquired	3. Cost or March 1, 1913, Value if Acquired Prior to That Date (Indicate basis)	4. Assets Fully Depreciated in Use at End of Year	5. Depreciation Allowed (or Allowable) in Prior Years	6. Remaining Cost or Other Basis to be Recovered	7. Life Used in Accumulating Depreciation	8. Estimated Remaining Life from Beginning of Year	9. Depreciation Allowable This Year
		\$	\$	\$	\$			\$

EXPLANATION OF DEDUCTION FOR LOSSES BY FIRE, STORM, ETC., CLAIMED IN SCHEDULE A AND IN ITEM 15

1. Kind of Property	2. Date Acquired	3. Cost	4. Subsequent Improvements	5. Depreciation Allowable Since Acquisition	6. Insurance and Salvage Value	7. Deductible Loss
		\$	\$	\$	\$	\$

2-10044

FLOYD W. JEFFERSONFEDERAL INCOME TAX RETURN 1936Item 10(a) - Dividends

American Chicle Co.	\$	333.75	
Union Pacific R.R.		15.00	
North American Co.		8.75	
Texas Corp.		19.75	
Chemical Bank & Trust Co.		128.25	
Commonwealth Life Ins. Co.		81.50	
Package Machinery Co.		50.00	
Burroughs Adding Machine Co.		7.65	
Standard Oil of Calif.		8.75	
The Texas Corp.		19.75	
Union Pacific R.R.Co.		15.00	
American Chicle Co.		200.25	
North American Co.		8.75	
Commonwealth Life Ins. Co.		65.20	
Chemical Bank & Trust Co.		128.25	
Package Machinery Co.		50.00	
General Motors Corp.		12.50	
Standard Oil of N.J.		58.50	
Standard Oil of Calif.		8.75	
Burroughs Adding Machine Co.		7.65	
The Texas Corp.		19.75	
Chemical Bank & Trust Co.		128.25	
Commonwealth Life Ins. Co.		65.20	
Union Pacific R.R.Co.		15.00	
American Chicle Co.		333.75	
North American Co.		8.75	
Package Machinery Co.		50.00	
Burroughs Adding Machine Co.		7.65	
General Motors Corp.		37.50	
Standard Oil of Calif.		8.75	
North American Co.		8.75	
American Chicle Co.		200.25	
Bethlehem Steel Corp.		19.25	
Texas Corp.		19.75	
Union Pacific R.R.		15.00	
Electric Auto-Lite Co.		21.00	
do		30.00	
Chemical Bank		128.25	
Commonwealth Life Ins. Co.		65.20	
Burroughs Adding Machine		30.60	
Package Machinery Co.		50.00	
Standard Oil of Calif.		8.75	
Standard Oil of N.J.		87.75	
Selfridge Prov. Stores		47.50	
General Motors Corp.		50.00	
Estate of Katie W. Jefferson			\$2,684.65
			599.79
			<u>\$3,284.44</u>

FLOYD W. JEFFERSONFEDERAL INCOME TAX RETURN 1935Item 14 - Taxes Paid

Real Estate Taxes	\$1,008.00
New York State Income Tax	350.20
Tax on Club Dues	50.50
Tax on Admissions	6.70
Gasoline Tax	30.00
Auto Licenses	38.40
Excise Taxes	50.00
	<u>\$1,533.80</u>

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ITEM 17 - Contributions

Yale Alumni Fund	\$ 10.00
Salvation Army	5.00
Christ Church	75.00
B'nai Israel Old Age Home	1.00
N.Y. Guild Jewish Blind	1.00
American Foundation for Blind	53.02
	<u>\$ 145.02</u>

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Item 18 - Other Deductions

Premiums paid on life insurance policies assigned or taken out in favor of others as collateral to loans on which taxpayer was guarantor, to secure business for Iselin-Jefferson Co.	\$7,769.54
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Ridgeway Oil Syndicate Bond purchased 8/2/29 - became worthless during 1935	500.00
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	<u>\$8,269.54</u>
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JEFFERSON STANDARD LIFE INSURANCE COMPANY

GREENSBORO, NORTH CAROLINA

HEREBY INSURES

FLOYD WELMAN JEFFERSON
HEREINAFTER CALLED THE INSURED

in the sum of TEN THOUSAND Dollars
HEREINAFTER CALLED THE FACE AMOUNT

payable at its Home Office in the City of Greensboro, N. C., unto

GEORGIA HOLDING COMPANY
HEREINAFTER CALLED, THE BENEFICIARY

immediately upon receipt of the policy.

This insurance is granted in consideration of the application for this policy and of

THREE HUNDRED EIGHT & 20/100 Dollars,

being the premium for the term of the first policy year, ~~the amount of which is hereby acknowledged~~, and the payment of a like sum to the said Company on each anniversary of the date of this policy as shown below.

In lieu of the premium stated, the Company will accept semi-annual installments of \$ 157.20 or quarterly installments of \$ 79.40, but the payment of any such installment shall not continue this policy in force beyond the month of grace allowed for payment of the next installment.

The privileges and provisions written, printed or attached by the Company on the following pages are a part of this contract.

In Witness Whereof, the JEFFERSON STANDARD LIFE INSURANCE COMPANY has caused this contract to be signed by its President and its Secretary, at its Home Office in the City of Greensboro, N. C., on this the 22ND day of DECEMBER, One Thousand Nine Hundred and TWENTY-FIVE, referred to above as the date of this Policy.

Attest:

Examined
by

BW

Registrar.

Julian Price
President.

RIGHTS OF THE INSURED

The Insured may, without the consent of the beneficiary, receive every benefit, exercise every right and enjoy every privilege conferred upon the Insured by this Policy.

Amount of Insurance Payable at Death. Premiums Payable for Life.—Non-Participating.

GENERAL PROVISIONS

This policy is not entitled to participate in the profits or divisible surplus of the Company.

After this policy shall have been in force during the lifetime of the Insured for two full years from the date hereof it shall be incontestable for any cause except for non-payment of premium.

Should this policy cease and determine for non-payment of any premium, it may be reinstated at any time by the payment of the defaulted premiums with six per cent. interest added and by furnishing evidence of insurability satisfactory to the Company.

In the payment of any premium under this policy, or installment thereof provided herein, except the first, a grace of one month (not less than thirty days) will be allowed, subject to an interest charge of six per cent.

Provided this policy be not assigned, the Insured may at any time, and from time to time, change the Beneficiary hereunder, such change to take effect upon the written endorsement of the same upon the policy by the Company. If the Insured shall survive the Beneficiary or Beneficiaries or any of them herein, the proceeds of the contract or the share of the deceased Beneficiary or Beneficiaries, as the case may be, shall be paid to the executors, administrators or assigns of the Insured, unless otherwise provided in or by endorsement upon this contract.

All statements made by the Insured in the application in the absence of fraud shall be deemed representations and not warranties.

In case of self-destruction committed, whether sane or insane, within two years from the date hereof, the extent of recovery hereunder shall be the premiums paid.

The Company will admit age upon satisfactory proof; otherwise, if age is not truly stated in the application, the benefits hereunder will be what the premiums actually paid would have purchased at the true age.

No assignment of this policy shall take effect unless made in writing in duplicate, the original attached to this policy and the duplicate filed in the Home Office of the Company. The Company will not assume any responsibility for the validity of an assignment.

This policy and the application therefor, copy of which is attached hereto, constitute the entire contract, and no statement shall avoid any payment under this policy or be used in defence of any claim hereunder unless it is contained in one of these instruments.

No agent or other person except the President, a Vice-President, the Secretary or an Assistant Secretary of the Company has power to make, modify or discharge this or any contract of insurance, to extend the time for paying a premium, to waive any law or to interfere with the Company's rights or requirements, or to bind the Company by making any promise respecting any benefits hereunder or by accepting any representation or information not contained in the written application for this policy.

This policy does not take effect until the first annual premium, or installment thereof, shall have been actually paid during the lifetime and good health of the Insured. Subsequent premiums are payable in advance to the Company at its Home Office, but may be paid to an authorized agent in exchange for an official receipt signed by the Secretary and countersigned by the agent.

In any settlement under this policy all indebtedness, including any unpaid balance of the current year's premium, will be first deducted.

In case of default in the payment of any premium, or installment of premium, or note given for any renewal premium or portion thereof, this policy shall cease and determine and the payments received hereon shall become the property of the Company, except as specified on second page hereof.

The insurance provided for in this policy is based upon the payment of premiums annually in advance.

LOANS

After two full years' premiums have been paid on this policy, the Company will lend hereon, ~~and the security hereof, at six per cent. per annum, the cash value available at the end of the then current policy year. Any subsequent loan shall not exceed the amount indicated in the Table of Values for the year it is applied for, less existing indebtedness with accrued interest. For the protection of the interests of all policyholders, the Company reserves the right to defer for a period of not more than ninety days the making of a policy loan for any purpose other than the payment of premiums.~~

FAILURE TO REPAY LOANS

Failure to repay a policy loan or premium loan, or to pay interest thereon, shall not avoid the policy unless the existing indebtedness with accrued interest shall equal or exceed the cash value at the time of such failure, nor until one month after notice has been mailed by the Company to the last known address of the Insured and assignee of record (if any) at the Home Office of the Company.

NON-FORFEITURE PROVISIONS

AUTOMATIC PREMIUM LOANS:—After two full years' premiums have been paid on this policy, if any subsequent premium be not paid within one month (not less than thirty days) from the due date, and if the Insured has not waived this provision and elected in writing one of the guaranteed values named in the table below, the Company will advance the current year's premium or the unpaid portion thereof, and subsequent annual premiums as they become due, so long as a full annual premium may be advanced, and thereafter a semi-annual or quarterly premium as the cash value may permit, in accordance with the following condition, namely:—that the premium so advanced shall be charged as a loan, bearing interest at six per cent. annually, against the cash value available at the end of the period to which the premium so advanced applies; but if said cash value is insufficient to cover all existing indebtedness with accrued interest to the end of such period, together with at least a quarterly premium, and interest thereon to the end of such period, then the remainder of the cash value at the end of the period for which premiums have been fully paid, after all existing indebtedness and accrued interest thereon, including automatic premium loans, has been deducted, shall be used to continue the policy in force for that portion of a year that such remainder of said cash value bears to the full annual premium payable under this contract, at the expiration of which time this policy shall automatically terminate. At any time while this policy is in full force the Insured may pay up all loans with interest, or continue such loans as a lien against the policy and resume the payment of premiums without medical examination.

GUARANTEED SURRENDER VALUES:—After two full years from the date hereof if there be no indebtedness to the Company, the Insured shall, within one month (not less than thirty days) from the due date of any premium after the second, upon written notice to the Company, be entitled to a surrender value—in cash, non-participating paid-up insurance or non-participating extended insurance—as set forth in the table below. It is guaranteed that the cash values are at least equal to the values of the corresponding paid-up or extended insurance.

If paid-up insurance is selected, such paid-up insurance will have an increasing cash surrender value. If extended insurance is selected such extended insurance will have a decreasing cash surrender value, expiring with the extension term.

For the protection of the interests of all policyholders, the Company reserves the right to defer payment of any cash value for not more than ninety days after written application is made therefor.

~~Values for years after those given in table below will be established upon application.~~

Payment of part of a year's premium, not less than a regular quarterly installment, shall ratably increase the values.

TABLE OF GUARANTEED SURRENDER VALUES

At End of Year	Cash or Loan Value for Each \$1,000 of the Face Amount	Paid-up Insurance for Each \$1,000 of the Face Amount	FACE AMOUNT EXTENDED FOR		At End of Year	Cash or Loan Value for Each \$1,000 of the Face Amount	Paid-up Insurance for Each \$1,000 of the Face Amount	FACE AMOUNT EXTENDED FOR	
			Years	Months				Years	Months
2	30	61	2	5	12	256	417	10	0
3	49	97	3	8	13	282	450	10	3
4	70	136	4	11	14	308	482	10	6
5	94	178	6	2	15	335	514	10	7
6	115	213	7	0	16	358	540	10	7
7	137	248	7	9	17	382	565	10	7
8	160	282	8	4	18	405	589	10	6
9	183	317	8	11	19	428	611	10	5
10	207	351	9	4	20	451	633	10	4
11	231	384	9	9					

If there be any indebtedness against this policy, it shall be deducted from the cash surrender value; paid-up insurance shall be reduced proportionately; extended insurance shall be for the face amount of this policy less the indebtedness, and for such period as the reduced cash surrender value will purchase, but no longer than the period provided when no indebtedness, and the excess, if any, of the reduced cash value over the amount required to purchase extended insurance for such period shall purchase paid-up pure endowment, payable at the end of such period if the insured is then living.

It is guaranteed that no surrender charge exceeding two and one-half per cent. of the face amount of this policy has been deducted from the reserve in computing surrender or loan values and after twenty years shall be the full reserve without surrender charge. The reserve under this contract is based on the ~~American~~ Table of Mortality, with interest at three and one-half per cent.

INSTALLMENT PRIVILEGE

The Insured, or after the Insured's death, the Beneficiary, by written notice to the Company at its Home Office, may elect to have the total sum payable under this policy paid as follows in lieu of cash:

- (1) By payment of equal annual installments at the beginning of each year, for a specified number of years, the first installment being payable immediately, in accordance with the following table for each \$1,000 of said total sum; or,
- (2) By payment of equal annual installments, at the beginning of each year for a guaranteed number of years certain and as many years longer as the Beneficiary shall survive, in accordance with the following table for each \$1,000 of said total sum.
- (3) Retained by the Company for a Specified period, or during the lifetime of a designated individual, and while so retained interest will be paid to the Beneficiary at the end of each interest period. The amount of interest payments for each \$1,000 of the total sum shall not be less than \$35.00 annually; \$17.35 semi-annually; \$8.64 quarterly; or \$2.87 monthly. Provided, however, that interest periods must be selected so that each interest payment is not less than \$10.00. At the expiry of the designated period the total sum payable will be paid to such persons as shall have been agreed upon with the Company by the Insured.

LIMITED INSTALLMENTS—(Option 1)				CONTINUOUS INSTALLMENTS—(Option 2)															
Age of Insured at Beginning of Year	Age of Insured at End of Year	Number of Years	Amount of Annual Installment	Age of Insured at Beginning of Year	Age of Insured at End of Year	Number of Years	Amount of Annual Installment	Age of Insured at Beginning of Year	Age of Insured at End of Year	Number of Years	Amount of Annual Installment	Age of Insured at Beginning of Year	Age of Insured at End of Year	Number of Years	Amount of Annual Installment	Age of Insured at Beginning of Year	Age of Insured at End of Year	Number of Years	Amount of Annual Installment
2	3	18	508.60	20	21	20	45.24	31	20	48.76	42	20	54.31	63	16	65.45	64	12	85.32
3	4	14	344.86	21	22	20	45.50	32	20	49.17	43	20	54.93	64	15	67.45	65	12	86.81
4	5	16	263.05	22	23	20	45.76	33	20	49.60	44	20	55.56	65	15	68.55	66	11	91.30
5	6	18	213.99	23	24	20	46.04	34	20	50.05	45	18	57.22	66	15	69.65	67	11	92.99
6	7	17	181.32	24	25	20	46.33	35	20	50.51	46	18	57.96	67	14	72.06	68	11	94.64
7	8	18	158.01	25	26	20	46.63	36	20	51.00	47	17	59.29	68	14	73.29	69	10	100.28
8	9	19	140.56	26	27	20	46.95	37	20	51.50	48	17	60.12	69	14	74.52	70	10	102.15
9	10	20	127.00	27	28	20	47.28	38	20	52.03	49	17	60.97	70	13	77.46	71	10	103.99
10	11	25	116.18	28	29	20	47.62	39	20	52.57	50	16	62.56	71	13	78.83	72	9	111.19
11	12	30	107.34	29	30	20	47.98	40	20	53.13	51	16	63.51	72	13	80.19	73	9	113.32
12		35	99.98	30		20	48.36	41	20	53.71	52	16	64.47	73	12	83.80	74	9	115.37

Provisions may be made under option (1) and (2) for monthly installments, if each monthly payment amounts to at least ten dollars, on the basis of \$8.48 per month for each \$100.00 annual installment.

The Beneficiary can neither assign nor commute unpaid installments, unless such right is given to the Beneficiary by the Insured in writing and is endorsed on this contract by the Home Office, during the lifetime of the Insured.

The Insured may subsequently change or revoke his selection under these installment provisions by written notice to the Company, such change or revocation to take effect upon receipt of such written notice at the Home Office of the Company in Greensboro, N. C., and the endorsement of the same upon this policy, by the Company.

The amounts guaranteed above are based on a guaranteed interest earning of 3 1/2 %, but the portion of the payments accruing from interest will be increased in accordance with such rate as shall be determined by the Directors of the Company, and all additional amounts so determined will be paid annually on the fifteenth day of December, unless monthly payments have been selected under option (3).



**JEFFERSON STANDARD LIFE
INSURANCE COMPANY**
GREENSBORO NORTH CAROLINA

FLOYD WELMAN JEFFERSON

No. 449,909

DATE DECEMBER 22ND 1925

AMOUNT \$ 10,000.00

ANNUAL PREMIUM \$ 303.20

NOTICE: IT IS NOT NECESSARY FOR THE INSURED OR THE BENEFICIARY TO EMPLOY THE AGENCY OF ANY PERSON, FIRM OR CORPORATION IN COLLECTING THE INSURANCE UNDER THIS POLICY, OR IN RECEIVING ANY OF THE BENEFITS THEREOF. AND EXPENSES WILL BE PAID BY WRITING DIRECT TO THE HOME OFFICE, GREENSBORO, NORTH CAROLINA.

Amount of Insurance Payable at Death. Premiums Payable for Life.—Non-Participating.

Ordinary Life. Form 6000a. Ed. 10-28.

REGISTER OF CHANGE OF BENEFICIARY

NOTE:—No change, designation, or declaration shall take effect until endorsed on this Contract by the Company at the Home Office.

Date Endorsed	Beneficiary	Insured's Executors, Administrators or Assigns
APR-8-37	Endorsed by [Signature]	INSURED'S EXECUTORS, ADMINISTRATORS OR ASSIGNS
JUN-4-37	[Signature]	OLIVER ISELIN, BUSINESS PARTNER



JEFFERSON STANDARD LIFE INSURANCE COMPANY

GREENSBORO, NORTH CAROLINA

HEREBY INSURES

FLOYD WELMAN JEFFERSON
HEREINAFTER CALLED THE INSURED

In the sum of SEVENTY EIGHT THOUSAND Dollars
HEREINAFTER CALLED THE FACE AMOUNT

payable at its Home Office in the City of Greensboro, N. C., unto

CHEMICAL BANK & TRUST CO., NEW YORK CITY, N. Y.
HEREINAFTER CALLED THE BENEFICIARY

immediately upon receipt of due proof of death of the Insured.

This insurance is granted in consideration of the application for this policy and of

TWO THOUSAND FOUR HUNDRED SIXTY SEVEN & 14/100 Dollars.

being the premium for the term of the first policy year, the receipt of which is hereby acknowledged, and the payment of a like sum to the said Company on each anniversary of the date of this policy as shown below.

In lieu of the premium stated, the Company will accept semi-annual installments of \$ 1,283.10 or quarterly installments of \$ 653.44, but the payment of any such installment shall not continue this policy in force beyond the month of grace allowed for payment of the next installment.

The privileges and provisions written, printed or attached by the Company on the following pages are a part of this contract.

In Witness Whereof, the JEFFERSON STANDARD LIFE INSURANCE COMPANY has caused this contract to be signed by its President and its Secretary, at its Home Office in the City of Greensboro, N. C., on this the 22ND day of DECEMBER, One Thousand Nine Hundred and TWENTY FIVE, referred to above as the date of this Policy.

Attest:

Examined
by

[Signature]
Secretary

[Signature]
Registrar

Julian Price
President

RIGHTS OF THE INSURED

The Insured may, without the consent of the beneficiary, receive every benefit, exercise every right and enjoy every privilege conferred upon the Insured by this Policy.

Amount of Insurance Payable at Death Premiums Payable for Life—Non-Participating

LOANS

After two full years' premiums have been paid on this policy, the Company will lend hereon, and on the sole security hereof, at six per cent. per annum, the cash value available at the end of the then current policy year. Any subsequent loan shall not exceed the amount indicated in the Table of Values for the year it is applied for, less existing indebtedness with accrued interest. For the protection of the interests of all policyholders, the Company reserves the right to defer for a period of not more than ninety days the making of a policy loan for any purpose other than the payment of premiums.

FAILURE TO REPAY LOANS

Failure to repay a policy loan or premium loan, or to pay interest thereon, shall not avoid the policy unless the existing indebtedness with accrued interest shall equal or exceed the cash value at the time of such failure, nor until one month after notice has been mailed by the Company to the last known address of the Insured and assignee of record (if any) at the Home Office of the Company.

NON-FORFEITURE PROVISIONS

AUTOMATIC PREMIUM LOANS:—After two full years' premiums have been paid on this policy, if any subsequent premium be not paid within one month (not less than thirty days) from the due date, and if the Insured has not waived this provision and elected in writing one of the guaranteed values named in the table below, the Company will advance the current years' premium or the unpaid portion thereof, and subsequent annual premiums as they become due, so long as a full annual premium may be advanced, and thereafter a semi-annual or quarterly premium as the cash value may permit, in accordance with the following condition, namely:—that the premium so advanced shall be charged as a loan, bearing interest at six per cent, annually, against the cash value available at the end of the period to which the premium so advanced applies; but if said cash value is insufficient to cover all existing indebtedness with accrued interest to the end of such period, together with at least a quarterly premium, and interest thereon to the end of such period, then the remainder of the cash value at the end of the period for which premiums have been fully paid, after all existing indebtedness and accrued interest thereon, including automatic premium loans, has been deducted, shall be used to continue the policy in force for that portion of a year that such remainder of said cash value bears to the full annual premium payable under this contract, at the expiration of which time this policy shall automatically terminate. At any time while this policy is in full force the Insured may pay up all loans with interest, or continue such loans as a lien against the policy and resume the payment of premiums without medical examination.

GUARANTEED SURRENDER VALUES:—After two full years from the date hereof if there be no indebtedness to the Company, the Insured shall, within one month (not less than thirty days) from the due date of any premium after the second, upon written notice to the Company, be entitled to a surrender value—in cash, non-participating paid-up insurance or non-participating extended insurance—as set forth in the table below. It is guaranteed that the cash values are at least equal to the values of the corresponding paid-up or extended insurance.

If paid-up insurance is selected, such paid-up insurance will have an increasing cash surrender value. If extended insurance is selected such extended insurance will have a decreasing cash surrender value, expiring with the extension term.

For the protection of the interests of all policyholders, the Company reserves the right to defer payment of any cash value for not more than ninety days after written application is made therefor.

Values for years after those given in table below will be furnished upon application.

Payment of part of a year's premium, not less than a regular quarterly installment, shall ratably increase the values.

TABLE OF GUARANTEED SURRENDER VALUES

At End of Year	Cash or Loan Value for Each \$1,000 of the Face Amount	Paid-up Insurance for Each \$1,000 of the Face Amount	FACE AMOUNT EXTENDED FOR		At End of Year	Cash or Loan Value for Each \$1,000 of the Face Amount	Paid-up Insurance for Each \$1,000 of the Face Amount	FACE AMOUNT EXTENDED FOR	
			Years	Months				Years	Months
2	30	61	2	5	12	256	417	10	0
3	49	97	3	8	13	282	450	10	3
4	70	136	4	11	14	308	482	10	6
5	94	178	6	2	15	335	514	10	7
6	115	213	7	0	16	358	540	10	7
7	137	248	7	9	17	382	565	10	7
8	160	282	8	4	18	405	589	10	6
9	183	317	8	11	19	428	611	10	5
10	207	351	9	4	20	451	633	10	4
11	231	384	9	9					

Ordinary Life, N. P. Form 602B, Age 47.

If there be any indebtedness against this policy, it shall be deducted from the cash surrender value; paid-up insurance shall be reduced proportionately; extended insurance shall be for the face amount of this policy less the indebtedness, and for such period as the reduced cash surrender value will purchase, but no longer than the period provided when no indebtedness, and the excess, if any, of the reduced cash value over the amount required to purchase extended insurance for such period shall purchase paid-up pure endowment, payable at the end of such period if the insured is then living.

It is guaranteed that no surrender charge exceeding two and one-half per cent. of the face amount of this policy has been deducted from the reserve in computing surrender or loan values and after twenty years the cash value shall be the full reserve without surrender charge. The reserve under this contract is based on the American Experience Table of Mortality, with interest at three and one-half per cent.

GENERAL PROVISIONS

This policy is not entitled to participate in the profits or divisible surplus of the Company.

After this policy shall have been in force during the lifetime of the Insured for two full years from the date hereof it shall be incontestable for any cause except for non-payment of premium.

Should this policy cease and determine for non-payment of any premium, it may be reinstated at any time by the payment of the defaulted premiums with six per cent. interest added and by furnishing evidence of insurability satisfactory to the Company.

In the payment of any premium under this policy, or installment thereof provided herein, except the first, a grace of one month (not less than thirty days) will be allowed, subject to an interest charge of six per cent.

Provided this policy be not assigned, the Insured may at any time, and from time to time, change the Beneficiary hereunder, such change to take effect upon the written endorsement of the same upon the policy by the Company. If the Insured shall survive the Beneficiary or Beneficiaries or any of them herein, the proceeds of the contract or the share of the deceased Beneficiary or Beneficiaries, as the case may be, shall be paid to the executors, administrators or assigns of the Insured, unless otherwise provided in or by endorsement upon this contract.

All statements made by the Insured in the application in the absence of fraud shall be deemed representations and not warranties.

In case of self-destruction committed, whether sane or insane, within two years from the date hereof, the extent of recovery hereunder shall be the premiums paid.

The Company will admit age upon satisfactory proof; otherwise, if age is not truly stated in the application, the benefits hereunder will be what the premiums actually paid would have purchased at the true age.

No assignment of this policy shall take effect unless made in writing in duplicate, the original attached to this policy and the duplicate filed in the Home Office of the Company. The Company will not assume any responsibility for the validity of an assignment.

This policy and the application therefor, copy of which is attached hereto, constitute the entire contract, and no statement shall avoid any payment under this policy or be used in defence of any claim hereunder unless it is contained in one of these instruments.

No agent or other person except the President, a Vice-President, the Secretary or an Assistant Secretary of the Company has power on behalf of the Company to make, modify or discharge this or any contract of insurance, to extend the time for paying a premium, to waive any lapse or forfeiture or any of the Company's rights or requirements, or to bind the Company by making any promise respecting any benefits hereunder or by accepting any representation or information not contained in the written application for this policy.

This policy does not take effect until the first annual premium, or installment thereof, shall have been actually paid during the lifetime and good health of the Insured. Subsequent premiums are payable in advance to the Company at its Home Office, but may be paid to an authorized agent in exchange for an official receipt signed by the Secretary and countersigned by the agent.

In any settlement under this policy all indebtedness, including any unpaid balance of the current year's premium, will be first deducted.

In case of default in the payment of any premium, or installment of premium, or note given for any renewal premium or portion thereof, this policy shall cease and determine and the payments received hereon shall become the property of the Company, except as specified on second page hereof.

The insurance provided for in this policy is based upon the payment of premiums annually in advance.

INSTALLMENT PRIVILEGE

The Insured, or after the Insured's death, the Beneficiary, by written notice to the Company at its Home Office, may elect to have the total sum payable under this policy paid as follows in lieu of cash:

- (1) By payment of equal annual installments at the beginning of each year, for a specified number of years, the first installment being payable immediately, in accordance with the following table for each \$1,000 of said total sum; or,
- (2) By payment of equal annual installments, at the beginning of each year for a guaranteed number of years certain and as many years longer as the Beneficiary shall survive, in accordance with the following table for each \$1,000 of said total sum.
- (3) Retained by the Company for a Specified period, or during the lifetime of a designated individual, and while so retained interest will be paid to the Beneficiary at the end of each interest period. The amount of interest payments for each \$1,000 of the total sum shall not be less than \$35.00 annually; \$17.35 semi-annually; \$8.64 quarterly; or \$2.87 monthly. Provided, however, that interest periods must be selected so that each interest payment is not less than \$10.00. At the expiry of the designated period the total sum payable will be paid to such persons as shall have been agreed upon with the Company by the Insured.

LIMITED INSTALLMENTS—(Option 1)				CONTINUOUS INSTALLMENTS—(Option 2)																	
Number of Installments	Amount of Installment	Number of Installments	Amount of Installment	Age of Beneficiary at Death of Insured	Guaranteed No. of Years Certain	Amount of Installment	Age of Beneficiary at Death of Insured	Guaranteed No. of Years Certain	Amount of Installment	Age of Beneficiary at Death of Insured	Guaranteed No. of Years Certain	Amount of Installment	Age of Beneficiary at Death of Insured	Guaranteed No. of Years Certain	Amount of Installment	Age of Beneficiary at Death of Insured	Guaranteed No. of Years Certain	Amount of Installment	Age of Beneficiary at Death of Insured	Guaranteed No. of Years Certain	Amount of Installment
2	508.60	13	93.78	20	20	45.24	31	20	48.76	42	20	54.31	63	16	65.45	64	12	85.32	78	9	117.30
3	344.86	14	88.47	21	20	45.50	32	20	49.17	43	20	54.93	64	15	67.45	65	12	86.81	78	8	127.25
4	263.05	16	83.89	22	20	45.76	33	20	49.60	44	20	55.56	65	15	68.55	66	11	91.30	77	8	129.59
6	213.99	18	79.89	23	20	46.04	34	20	50.05	45	18	57.22	66	15	69.65	67	11	92.99	78	8	131.79
6	181.32	17	76.37	24	20	46.33	35	20	50.51	46	18	57.96	67	14	72.06	68	11	94.64	79	7	145.23
7	158.01	18	73.25	25	20	46.63	36	20	51.00	47	17	59.29	68	14	73.29	69	10	100.28	80	7	147.99
8	140.56	19	70.47	26	20	46.95	37	20	51.50	48	17	60.12	69	14	74.52	70	10	102.15			
9	127.00	20	67.98	27	20	47.28	38	20	52.03	49	17	60.97	70	13	77.46	71	10	103.99			
10	116.18	25	59.62	28	20	47.62	39	20	52.57	50	16	62.56	71	13	78.83	72	9	111.19			
11	107.34	30	52.53	29	20	47.98	40	20	53.13	51	16	63.51	72	13	80.19	73	9	113.32			
12	99.98	35	48.31	30	20	48.36	41	20	53.71	52	16	64.47	73	12	83.80	74	9	115.37			

Provisions may be made under option (1) and (2) for monthly installments, if each monthly payment amounts to at least ten dollars, on the basis of \$8.48 per month for each \$100.00 annual installment.

The Beneficiary can neither assign nor commute unpaid installments, unless such right is given to the Beneficiary by the Insured in writing and is endorsed on this contract by the Home Office, during the lifetime of the Insured.

The Insured may subsequently change or revoke his selection under these installment provisions by written notice to the Company, such change or revocation to take effect upon receipt of such written notice at the Home Office of the Company in Greensboro, N. C., and the endorsement of the same upon this policy, by the Company.

The amounts guaranteed above are based on a guaranteed interest earning of 3 1/2 %, but the portion of the payments accruing from interest will be increased in accordance with such rate as shall be determined by the Directors of the Company, and all additional amounts so determined will be paid annually on the fifteenth day of December, unless monthly payments have been selected under option (3).



JEFFERSON STANDARD LIFE
INSURANCE COMPANY
GREENSBORO, NORTH CAROLINA

FLOYD WELMAN, JEFFERSON

No. 263,501

DATE DECEMBER 22ND 1925

AMOUNT \$ 78,000

ANNUAL PREMIUM \$ 2,467.14

NOTICE: IT IS NOT NECESSARY FOR THE INSURED OR THE BENEFICIARY TO EMPLOY THE AGENCY OF ANY PERSON, FIRM OR CORPORATION, IN COLLECTING THE INSURANCE UNDER THIS POLICY, OR IN RECEIVING ANY OF ITS BENEFITS. TIME AND EXPENSE WILL BE SAVED BY WRITING DIRECT TO THE HOME OFFICE, GREENSBORO, NORTH CAROLINA.

Amount of Insurance Payable at Death. Premiums Payable for Life.—Non-Participating.

Ordinary Life. Form 6000a. Ed. 10-25.

REGISTER OF CHANGE OF BENEFICIARY

NOTE:—No change, designation, or declaration shall take effect until endorsed on this Contract by the Company at the Home Office.

Endorsed by	Beneficiary	Date Endorsed

Assignment of Policy No. 263501.....

For the purpose of securing any indebtedness that I may owe the assignee hereinafter mentioned, or his estate at my death, I, Floyd W. Jefferson of New York City State of New York do hereby assign, transfer and set over unto Chemical Bank & Trust Company of New York State of N.Y. its Successors or assigns, Policy No. 263501 issued by

JEFFERSON STANDARD LIFE INSURANCE COMPANY, OF GREENSBORO, N. C.

dated the 22 day of December 1922, and all dividends, benefits, and advantages to be had or derived therefrom, subject to the conditions of said policy and the rules and regulations of the Company and subject and subordinate to any indebtedness against said policy. The object and extent of this assignment is to secure the said assignee against any and all indebtedness that I may be owing him or his estate at my death.

It is expressly agreed that before any payment shall be made by virtue of this assignment the said assignee hereto shall furnish to said Company an itemized sworn statement of all indebtedness that is secured by the assignment of this policy, crediting said account with any and all dividends, benefits, etc., derived from said policy.

And said JEFFERSON STANDARD LIFE INSURANCE COMPANY is hereby authorized, empowered and directed to pay such amount submitted to it by said assignee, after being satisfied of its correctness, and that said Company is hereby released and discharged from further liability under said policy to the amount of money so paid by virtue of this assignment.

Furthermore, I hereby constitute the above named assignee, its heirs, executors, administrators, or assigns, or his or their lawful substitute, its lawful attorney for it and in its name, place and stead to collect from the above named Company any and all moneys which said assignee shall be entitled to receive by virtue of this assignment, with full power to exonerate, acquit, discharge and release said Company thereof, as fully to all intents and purposes as I could in person. Executed in duplicate on the day and year immediately hereafter named.

Witness my hand and seal this the 3rd day of May, 1922.
CHEMICAL BANK & TRUST COMPANY (SEAL) Floyd W. Jefferson (SEAL)
 Beneficiary Asst. Vice-Pres. Insured

STATE OF New York COUNTY OF New York
 On this the 3 day of May, 1922, before me personally came Floyd W. Jefferson (insured) and, (beneficiary) so well known to be the individual who signed and executed the foregoing assignment, and acknowledged that he executed the same as act and deed, for the purposes therein expressed.
Notary Public.

THE JEFFERSON STANDARD LIFE INSURANCE COMPANY, of Greensboro, N. C., in accordance with its rules and regulations, as stated below, has retained the duplicate of this assignment.

Greensboro, N. C. day of May, 1922. Secretary.

NOTICE.—The rules require that all instruments of Assignment of Policies issued by the Company shall be made in duplicate: that both copies be sent to the home office for inspection, one to be retained by the Company, and the other to be returned to the assignee, to be attached to the policy, and that the Company shall not assume responsibility for the validity of any assignment or instrument of assignment.

(For form of release of above assignment see reverse side).

_____ 19____
 In consideration for which this assignment is made having been fully discharged, satisfied, and paid, _____
 hereby relinquish all right, title, and interest under policy No. _____ dated the _____
 day of _____, 19____, on the life of _____ and
 _____ as provided by this assignment.

Witness _____ hand _____ and _____ on the day and year above mentioned.

 (SEAL)

 (SEAL)

State of _____ County of _____

On this the _____ day of _____, 19____, before me personally came
 _____ and _____
 to me known to be the individual _____ who signed and executed the foregoing Release and acknowledged that
 _____ executed the same as _____ free act and deed for the purposes therein expressed

N. B.—Examiners are requested not to make examinations of applicants related to him nor for agents related to him.
 THIS EXAMINATION MUST BE MADE IN PRIVATE, NO AGENT OR THIRD PERSON BEING PRESENT.
 ANSWERS MADE TO THE MEDICAL EXAMINER
 Is continuation of, and forming Part Two of my Application for Insurance in JEFFERSON STANDARD LIFE INSURANCE CO., Greensboro, N. C.

1. What is the name of the agent through whom you are making application? *A. W. Tetter*

2. A. What is your occupation? (Full details) *Seller of Commission Business*
 B. How long have you been engaged in your present occupation? *5 years*
 C. What was your previous occupation? *None*
 D. Do you contemplate making any change, temporary or permanent, in your occupation? (If so, give full details) *No*

3. Do you contemplate changing your residence or occupation on account of health? (If so, give full details) *No*

4. Have you ever been told that your urine contained sugar, albumin or casts? *No*

5. Has your weight increased during the past two years? *No*

6. If married, are your wife, (or husband) and children in good health? If not, why? *No*

7. A. Have you used any drug occasionally or continuously?
 B. During the past two years, what has been your monthly average of alcoholic beverages?
 C. During the past five years, how often have you used any of these to intoxication, and, if so, date of last excess?
 D. Have you ever taken any treatment for the drink or drug habit? Which? Date?
No

8. A. Has any Life Insurance Company or Society ever examined you, either on an application for insurance, for reinstatement of insurance, or for any other reason, without issuing or reinstating such insurance?
 B. Has any Life Insurance Company or Society ever issued or offered to issue a policy on your life differing from the one applied for, or have you applied for reinstatement of a policy and been offered a different contract?
No

9. Has any person in your office, store, or immediate household consumption or has any one of them within two years suffered from or died of that disease?
No

10. Who is to pay the premiums on this policy?
 11. Who is your family physician?
 NAME *None* ADDRESS *None*

THE APPLICANT MUST ANSWER THESE QUESTIONS FULLY AND WITH SPECIAL CARE

12. Have you ever suffered from any ailment or disease of	Yes or No	Name of Ailment, Disease or Injury	No. of Attacks	Date	Duration	Severity	RESULTS and, if within five years, name and address of every Physician consulted
A. The Brain or Nervous System?	No						
B. The Heart, Lungs, Pleurae or Chest?	No						
C. The Stomach or Intestines, Liver, Kidneys or Bladder?	No						
D. The Skin, Middle Ear, Eyes, Nose or Throat?	No						
E. Have you ever had Rheumatism, Gout, Syphilis, or Stricture?	No						
F. Have you ever raised or spat blood? (If so, give full details.)	No						
G. Have you ever had an accident or injury?	No						
H. Are you ruptured?	No						
I. Have you ever undergone a surgical operation?	Yes	<i>Hysterectomy</i>	<i>1</i>	<i>1921</i>	<i>7 days</i>	<i>normal</i>	<i>Phys. receiving at St. Joseph's Hospital, New York</i>
J. Have you ever been a patient in any hospital, sanitarium or asylum?	No						
K. Have you consulted a doctor for any cause not included in above answers?	No						

13. Family Record	Age at Death	Condition of Health, if not good give full details	Age at Death	Cause of Death	Year of Death	How Long Ill	Details	Previous Health
Father	<i>71</i>	<i>unimpaired</i>	<i>1925</i>	<i>stroke</i>	<i>2</i>	<i>stroke</i>	<i>stroke</i>	<i>good</i>
Mother	<i>70</i>	<i>good</i>	<i>1925</i>	<i>stroke</i>	<i>2</i>	<i>stroke</i>	<i>stroke</i>	<i>good</i>
Brothers	<i>43</i>	<i>stroke</i>	<i>1925</i>	<i>stroke</i>	<i>2</i>	<i>stroke</i>	<i>stroke</i>	<i>good</i>
Sisters	<i>0</i>							

IF A WOMAN—The Examiner is requested to be especially careful in obtaining all information necessary to satisfy himself as to the insurability of a female risk.

14. A. Are you married? B. Date of marriage? C. Is menstruation regular and normal? D. Are you pregnant? E. Have pregnancies and labors been normal? F. Have you ever miscarried? When? Cause? G. How many children have you had? The age of the last? H. Have you passed the change of life? I. Have you had any disease peculiar to your sex?

I AGREE, REPRESENT AND DECLARE, on behalf of myself and of every person who shall have or claim any interest in any insurance made hereunder, that I have carefully read each and all of the above answers, that they are each written as made by me, that each of them is full, complete and true, and that I am a proper subject for life insurance. Each and all of my said statements, representations and answers contained in this application are made by me to obtain said insurance, and I understand and agree that they are each material to the risk and that the Company believing them to be true will rely and act upon them. I expressly waive, on behalf of myself, and of any person who shall have or claim any interest in any policy issued hereunder, all provisions of law forbidding any physician or other person who has heretofore attended or examined me, or who may hereafter attend or examine me, from disclosing any knowledge or information which he thereby acquires.

Dated this *13* day of *Aug* 1925
 Witnessed by *Frank W. Jefferson* M. D. Medical Examiner
 Signature of the person applying for insurance: *Frank W. Jefferson*

N. B.—Examiners are requested not to make examinations of applicants related to him nor for agents related to him.
 THIS EXAMINATION MUST BE MADE IN PRIVATE, NO AGENT OR THIRD PERSON BEING PRESENT.
 ANSWERS MADE TO THE MEDICAL EXAMINER
 Is continuation of, and forming Part Two of my Application for Insurance in JEFFERSON STANDARD LIFE INSURANCE CO., Greensboro, N. C.

1. What is the name of the agent through whom you are making application? *A. W. Tetter*

2. A. What is your occupation? (Full details) *Cotton Goods Commission Business*
 B. How long have you been engaged in your present occupation? *25 years*
 C. What was your previous occupation? *None*
 D. Do you contemplate making any change, temporary or permanent, in your occupation? (If so, give full details) *No*

3. Do you contemplate changing your residence or occupation on account of health? (If so, give full details) *No*

4. Have you ever been told that your urine contained sugar, albumin or casts? *No*

5. Has your weight increased during the past two years? *No*

6. If married, are your wife, (or husband) and children in good health? If not, why? *No*

7. A. Have you used any drug occasionally or continuously?
 B. During the past two years, what has been your monthly average of alcoholic beverages?
 C. During the past five years, how often have you used any of these to intoxication, and, if so, date of last excess?
 D. Have you ever taken any treatment for the drink or drug habit? Which? Date?
No

8. A. Has any Life Insurance Company or Society ever examined you, either on an application for insurance, for reinstatement of insurance, or for any other reason, without issuing or reinstating such insurance?
 B. Has any Life Insurance Company or Society ever issued or offered to issue a policy on your life differing from the one applied for, or have you applied for reinstatement of a policy and been offered a different contract?
No

9. Has any person in your office, store, or immediate household consumption or has any one of them within two years suffered from or died of that disease?
No

10. Who is to pay the premiums on this policy?
 11. Who is your family physician?
 NAME *None* ADDRESS *None*

THE APPLICANT MUST ANSWER THESE QUESTIONS FULLY AND WITH SPECIAL CARE

12. Have you ever suffered from any ailment or disease of	Yes or No	Name of Ailment, Disease or Injury	No. of Attacks	Date	Duration	Severity	RESULTS and, if within five years, name and address of every Physician consulted
A. The Brain or Nervous System?	No						
B. The Heart, Lungs, Pleurae or Chest?	No						
C. The Stomach or Intestines, Liver, Kidneys or Bladder?	No						
D. The Skin, Middle Ear, Eyes, Nose or Throat?	No						
E. Have you ever had Rheumatism, Gout, Syphilis, or Stricture?	No						
F. Have you ever raised or spat blood? (If so, give full details.)	No						
G. Have you ever had an accident or injury?	No						
H. Are you ruptured?	No						
I. Have you ever undergone a surgical operation?	Yes	<i>Hysterectomy</i>	<i>1</i>	<i>1920</i>	<i>7 days</i>	<i>normal</i>	<i>Phys. receiving at St. Joseph's Hospital, New York</i>
J. Have you ever been a patient in any hospital, sanitarium or asylum?	No						
K. Have you consulted a doctor for any cause not included in above answers?	No						

13. Family Record	Age at Death	Condition of Health, if not good give full details	Age at Death	Cause of Death	Year of Death	How Long Ill	Details	Previous Health
Father	<i>71</i>	<i>unimpaired</i>	<i>1925</i>	<i>stroke</i>	<i>2</i>	<i>stroke</i>	<i>stroke</i>	<i>good</i>
Mother	<i>70</i>	<i>good</i>	<i>1925</i>	<i>stroke</i>	<i>2</i>	<i>stroke</i>	<i>stroke</i>	<i>good</i>
Brothers	<i>43</i>	<i>stroke</i>	<i>1925</i>	<i>stroke</i>	<i>2</i>	<i>stroke</i>	<i>stroke</i>	<i>good</i>
Sisters	<i>0</i>							

IF A WOMAN—The Examiner is requested to be especially careful in obtaining all information necessary to satisfy himself as to the insurability of a female risk.

14. A. Are you married? B. Date of marriage? C. Is menstruation regular and normal? D. Are you pregnant? E. Have pregnancies and labors been normal? F. Have you ever miscarried? When? Cause? G. How many children have you had? The age of the last? H. Have you passed the change of life? I. Have you had any disease peculiar to your sex?

I AGREE, REPRESENT AND DECLARE, on behalf of myself and of every person who shall have or claim any interest in any insurance made hereunder, that I have carefully read each and all of the above answers, that they are each written as made by me, that each of them is full, complete and true, and that I am a proper subject for life insurance. Each and all of my said statements, representations and answers contained in this application are made by me to obtain said insurance, and I understand and agree that they are each material to the risk and that the Company believing them to be true will rely and act upon them. I expressly waive, on behalf of myself, and of any person who shall have or claim any interest in any policy issued hereunder, all provisions of law forbidding any physician or other person who has heretofore attended or examined me, or who may hereafter attend or examine me, from disclosing any knowledge or information which he thereby acquires.

Dated this *13* day of *Aug* 1925
 Witnessed by *Frank W. Jefferson* M. D. Medical Examiner
 Signature of the person applying for insurance: *Frank W. Jefferson*

Use only black ink in this examination is to be photographed.

DO NOT USE DASHES OR DITTO MARKS IN ANSWERING QUESTIONS.

NOTICE TO THE MEDICAL EXAMINER Use only black ink in this examination is to be photographed.

DO NOT USE DASHES OR DITTO MARKS IN ANSWERING QUESTIONS.

APPLICATION FOR LIFE INSURANCE IN JEFFERSON STANDARD LIFE INSURANCE COMPANY, CHICKENSBORO, N. C.

1. A. Full name Woyd Nelson Jefferson
 B. Address to which Premium Notice shall be sent.
 (City) Jefferson City (County) _____ (State) N.C. C. Formerly resided at _____
 No. 58-60 North Street or R. F. D. No. _____
 2. A. (Nearest Birthday) _____ B. Day _____ Month _____ Year _____ C. State or Country _____
 Age 47 When Born 20 Dec 78 Where Born N.C. D. Married E. Race or Nationality W
 3. A. What is your occupation? (Describe fully your daily duties) V.P. Hunter, Conn. Co
 B. Have you within the past five years engaged in any other occupation? If so, what? No
 4. Form of Policy Level
 5. A. Amount of Insurance 50,000 B. Amount of Premium 150.00 C. Payable after first year Annually
 6. _____
 7. At my death the insurance shall be payable to Hunter, Conn. Co. (Name in Full) _____ (Relationship) _____
 8. I have insurance on my life as follows:
 Company Prudential Eldest 1900 Year of Issue 1900 Amount 10,000
 9. Have you made application for life insurance without receiving policy to applied for? No
 10. Have you an application pending in any other company now? (If so, give name of company) No
 11. Have you, within two years, occupied the same room, house, office or store with a consumptive? No
 12. Have you been disabled or received medical or surgical attention within the past five years? No
 13. Have you ever changed climate or occupation or been advised to do so for the benefit of your health? No
 14. Do you contemplate changing your residence or traveling or living outside of the United States? No
 Do you use malt or alcoholic liquors? (If so, state daily or weekly quantity) No
 15. Do you use, or have you ever used, opium, cocaine, or any other narcotic? No
 16. Have you taken treatment for drink or drug habit? (If so, state when and where) No
 17. Are you sound mentally and physically and free from any infirmity or deformity? Yes
 18. I agree that my acceptance of any policy issued on this application shall constitute a ratification by me of any corrections, additions, or changes made by the Company in the space provided for "Home Office Endorsements."
 I hereby agree for myself and for any person who may have or claim an interest in any contract which may be issued upon this application, that
 1st. Every statement and representation herein above contained is material and true.
 2nd. Any distribution of surplus or apportionment of profits, or principles, or methods which may be adopted at any time by the Company for the distribution of surplus and its distribution of the amount to any policy which may be issued under this policy shall be or shall be deemed to be the same for and policy and upon all parties having or claiming any interest thereunder.
 3rd. That the Company shall incur no liability under this application (unless properly executed Conditional Receipt bearing the same number as this application has been delivered to me and then only subject to its provisions) unless and until (a) it has been received and approved, (b) the policy issued and actually delivered and (c) the premium has been actually paid to and accepted by the Company, or its authorized agent, all during my life time and while I am in good health.
 4th. I HAVE PAID TO THE AGENT NAMED HEREUNDER _____ on account of the first premium on the policy applied for, the said sum to be applied in accordance with the provisions of the Conditional Receipt, bearing the same number as this application, which has been delivered to and accepted by me subject to the conditions thereof.
 Dated at Jefferson N.C. this 1st day of Aug 1924
 Signature of the person applying for Insurance _____
 Witnessed by M. J. White Soliciting Agent _____
 General Agent HOME OFFICE AGENCY _____
 (SIGN NAME IN FULL) Woyd Nelson Jefferson

QUESTIONS ON BACK HEREOF TO BE ANSWERED IF APPLICANT IS A FEMALE OR MINOR B No 46764

NUMBER
71021



Exhibit 'E'

PILOT

LIFE INSURANCE COMPANY

GREENSBORO, NORTH CAROLINA

THIS COMPANY HEREBY INSURES THE LIFE OF

FLYNN WELMAN JEFFERSON

(hereinafter called the Insured) under this Policy, the terms and particulars of which are as follows:

<u>Plan of Insurance</u> . . .	Whole Life.
<u>Amount of Insurance</u>	TWENTY-FIVE THOUSAND DOLLARS. Payable immediately upon receipt and approval at the Company's Home Office of proofs of the death of the Insured, while this Policy is in force.
<u>Premium</u>	SEVEN HUNDRED EIGHTY-ONE AND 00/100 DOLLARS. To be paid on or before the delivery of the Policy, ... and ANNUALLY thereafter on or before the day of in each year during the continuance of this Policy.
<u>Policy Matures</u>	On the death of the Insured.
<u>Beneficiary</u>	JUDSON MILL, GREENVILLE, S. C., EMPLOYER of the Insured. The Insured has reserved the right to change the Beneficiary.

GRACE:—In the payment of every premium after the first, thirty-one days of grace without interest are allowed, during which time the insurance shall continue in full force. In the event of death occurring within the days of grace the unpaid premium for the then current year shall be deducted from the amount payable hereunder.

MISSTATEMENT OF AGE:—If the age of the Insured has been stated incorrectly, the amount payable under this Policy shall be such as the premiums paid would have purchased at the correct age.

INCONTINGENCY AND CONTRACT:—After two years from the date hereof this Policy shall be incontestable for the amount due, except for non-payment of premiums, and except as to the provision granting waiver of premium and monthly income payments in the event of total and permanent disability, and provision granting additional insurance in the event of death from accident. This Policy and the application therefor, a copy of which is attached hereto, constitute the entire contract between the parties hereto. All statements made by the Insured shall, in the absence of fraud, be deemed representations and not warranties, and no such statement shall avoid or be used in defense to a claim under this Policy unless it is contained in said application.

THE PRIVILEGES, OPTIONS AND PROVISIONS set forth on the second and third pages hereof form part of this Contract and are binding on both parties hereto.

The first year's insurance under this Policy is term insurance.

IN WITNESS WHEREOF, The Pilot Life Insurance Company, at its Home Office, in the City of Greensboro, North Carolina, has caused this Contract to be signed by its President and Treasurer, and to be countersigned by an executive officer, or by its Registrar, and dated the FOURTEENTH day of DECEMBER nineteen hundred and TWENTY-FIVE.

[Signature] Treasurer.
[Signature] Registrar.
[Signature] President.

Form W. L. 224 N. P. 300 4-35. 8

Whole Life - Nonparticipating

NONFORFEITURE PRIVILEGES

After three years' premiums shall have been paid in full, if default shall be made in the payment of any subsequent premium, this Policy will be entitled to the following privileges:

CASH SURRENDER VALUE:—The Insured on legal surrender of this Policy to the Company at its Home Office within thirty-one days after the due date of such premium may receive the Cash Surrender Value (The value for each \$1,000 of insurance is given in Column I of the table below); provided, that the Company reserves the right to defer such payment of Cash Surrender Value, in whole or in part, with interest at six percent per annum, for a period not exceeding six months from the date that written request therefor is filed with the Company at its Home Office, in case the Company should judge such course to be necessary for the protection of the other policyholders; or

PAID UP INSURANCE:—In lieu of such Cash Surrender Value, provided there is no prior indebtedness hereon, the Insured may elect, by written request filed at the Home Office within the same period, and accompanied by this Policy for proper endorsement, to have this Policy continued from said date as Paid-up Non-participating Insurance for a reduced amount according to the number of years' premiums paid. (The amount for each \$1,000 of insurance is given in Column II of the table below); or

AUTOMATIC EXTENDED INSURANCE:—If no election of Paid-up Insurance or Cash Value is made by the Insured within the period designated, the insurance hereunder shall automatically be continued, from the date of default as Non-participating Term Insurance, for the period indicated in Column III of the Table below, corresponding to the number of years' premiums paid. This Policy, so continued, may be surrendered at any time for its full reserve value at the time of surrender.

RAIS OF RESERVES AND VALUES:—Reserve will be maintained on this Policy, based on the American Experience Table of Mortality, ^{Select and 10% Normal} ~~Standard~~ ^{Table} ~~Table~~, with interest at the rate of three and one-half percent per annum. The guaranteed values in the accompanying table are based on the reserves, less a surrender charge of not more than two and one-half percent of the face amount of this Policy. Payment of part of a year's premium, not less than a regular quarterly instalment, shall ratably increase the values.

TABLE ABOVE MENTIONED FOR EACH \$1,000 OF INSURANCE
CONDITIONED UPON THERE BEING NO INDEBTEDNESS HEREON

After all Premiums are Paid for	COLUMN I Cash Surrender Value Loan Value*	COLUMN II Paid-up Insurance	COLUMN III Extended Term Insurance (Automatic)		After all Premiums are Paid for	COLUMN I Cash Surrender Value Loan Value*	COLUMN II Paid-up Insurance	COLUMN III Extended Term Insurance (Automatic)	
			Years	Months				Years	Months
3	\$50	\$98	3	8	12	256	415	10	0
4	72	137	5	0	13	282	448	10	3
5	94	177	6	1	14	308	481	10	5
6	115	211	6	11	15	334	513	10	7
7	137	247	7	8	16	358	539	10	7
8	159	281	8	4	17	381	563	10	7
9	183	315	8	10	18	405	587	10	6
10	207	350	9	4	19	428	610	10	5
11	231	383	9	8	20	450	631	10	4

If this Policy is continued in force beyond twenty years, the above table will be extended on request.

* The maximum loan value is obtained by deducting interest in advance, from the values here given, to the end of the current policy year.

INDEBTEDNESS REDUCES THE VALUES OF THE ABOVE OPTIONS:—Any indebtedness to the Company existing at the time of default in premium payment shall be deducted from the full Cash Surrender Value, and the amount of Extended Term Insurance or Paid-up Insurance, granted in such case, shall be reduced in the proportion such indebtedness bears to the full Cash Surrender Value.

SETTLEMENT OPTIONS

If this Policy is not assigned, the Insured, at any time while it is in force, or the Beneficiary, upon the death of the Insured, while it is in force, may substitute ~~any~~ ^{any} ~~any~~ ^{any} payment by annual instalments, as stated in ~~Options I and II~~ ^{Option I and II}, or may defer payment according to Option III, subject to the following provisions:

The first instalment will be payable ~~on the date of death of the Insured, and subsequent instalments will be payable on the succeeding anniversaries of such payment thereafter; any existing indebtedness to the Company on account of this Policy to be deducted from the first instalment or instalments due.~~ ^{on the date of death of the Insured, and subsequent instalments will be payable on the succeeding anniversaries of such payment thereafter; any existing indebtedness to the Company on account of this Policy to be deducted from the first instalment or instalments due.}

If the Beneficiary should die before the completion of the instalment payments under ~~Options I or II~~ ^{Option I or II}, the unpaid instalments will be paid thereafter to the executor, administrators or assigns of the Beneficiary, unless otherwise provided and endorsed on this Policy.

The Insured may at any time subsequently change any selection of settlement options as may be desired, as above illustrated, and may also revoke any selection, thereby making this Policy payable in one sum. Each selection, change, or revocation of selection must be requested by the Insured in writing, and will not take effect until endorsed on this Policy by the Company at its Home Office.

The Beneficiary can neither assign nor commute unpaid instalments or interest, unless such right is given to the Beneficiary by the Insured in writing, and is endorsed on this Policy by the Company at its Home Office, during the lifetime of the Insured.

Provision may be made for payment in either monthly, quarterly, semi-annual or annual instalments.

OPTION I:—LIMITED INSTALMENTS ON THE BASIS OF \$1,000, PAYABLE AT MATURITY

Number of Years' Instalments	30	25	20	15	10	5	4
1. Annual Instalments—Amount of each, if equal	\$ 52.53	\$ 58.92	\$ 67.98	\$ 83.96	\$116.18	\$218.99	\$363.04
2. First Payment	188.28	197.18	177.41	180.96	239.22	357.31	399.00
3. Subsequent Payments	45.00	50.00	60.00	75.00	100.00	175.00	250.00
4. Monthly Instalments	4.45	4.96	5.75	7.10	9.83	18.12	29.37

OPTION II:—CONTINUOUS INSTALMENTS ON THE BASIS OF \$1,000, PAYABLE AT MATURITY

The amount of instalment, and the guaranteed minimum number of instalments, to be determined by the age of the Beneficiary at the death of the Insured, as shown by the following table on the basis of \$1,000. The guaranteed minimum number of equal annual instalments at least will be paid, but instalments to continue during the entire lifetime of the Beneficiary.

Attained Age of Beneficiary	Annual Inst. for 5 Years	Annual Inst. for 10 Years	Annual Inst. for 15 Years	Annual Inst. for 20 Years	Attained Age of Beneficiary	Annual Inst. for 5 Years	Annual Inst. for 10 Years	Annual Inst. for 15 Years	Annual Inst. for 20 Years
15	\$42.34	\$42.16	\$41.90	\$41.58	28	\$16.17	\$15.90	\$15.53	\$15.08
16	42.56	42.38	42.11	41.78	29	16.37	16.09	15.72	15.27
17	42.80	42.61	42.33	41.99	30	16.59	16.30	15.93	15.48
18	43.04	42.84	42.56	42.22	31	16.82	16.53	16.16	15.71
19	43.29	43.09	42.80	42.45	32	17.05	16.76	16.39	15.94
20	43.55	43.35	43.05	42.69	33	17.29	17.00	16.63	16.18
21	43.83	43.62	43.31	42.94	34	17.54	17.25	16.88	16.43
22	44.12	43.90	43.59	43.20	35	17.80	17.51	17.14	16.69
23	44.42	44.20	43.88	43.47	36	18.07	17.78	17.41	16.96
24	44.74	44.51	44.18	43.76	37	18.35	18.06	17.69	17.24
25	45.07	44.84	44.50	44.05	38	18.64	18.35	17.98	17.53
26	45.42	45.18	44.82	44.36	39	18.94	18.65	18.28	17.83
27	45.78	45.54	45.17	44.68	40	19.25	18.96	18.59	18.14
41	\$33.24	\$32.71	\$32.18	\$31.74	54	\$67.08	\$65.36	\$63.50	\$61.50
42	33.99	33.42	32.81	31.30	55	68.54	66.77	64.81	62.78
43	34.79	34.17	33.51	31.88	56	70.14	68.34	66.34	64.28
44	35.63	34.96	34.25	32.47	57	71.83	69.99	67.94	65.85
45	36.52	35.79	35.02	33.07	58	73.63	71.73	69.64	67.58
46	37.45	36.68	35.88	33.69	59	75.53	73.60	71.47	69.48
47	38.43	37.66	36.87	34.33	60	77.52	75.56	73.39	71.38
48	39.47	38.71	37.90	34.98	61	79.64	77.66	75.45	73.48
49	40.57	39.81	39.03	35.64	62	81.88	79.88	77.63	75.69
50	41.72	40.96	40.18	36.31	63	84.24	82.19	79.90	77.90
51	42.94	42.18	41.37	36.99	64	86.74	84.67	82.34	80.10
52	44.23	43.47	42.63	37.67	65	89.38	87.34	85.03	82.78
53	45.58	44.80	43.93	38.36	66	92.18	90.19	87.83	85.48

OPTION III INTEREST INCOME:—Interest earnings upon the policy proceeds accruing from the date of maturity of the Policy, to be payable annually at the rate of three and one-half percent per annum, during the lifetime of the Beneficiary, or for a shorter fixed period if requested by the Insured, and thereafter the policy proceeds to be payable to such persons as shall have been agreed upon with the Company by the Insured.

The amounts payable under Option I, II and III above are based upon an assumed interest earning of three and one-half percent, but if the net average rate of interest earnings upon funds held under these options, after provision for investment and administrative expenses, is found by the Company for any year to be greater than three and one-half percent, the sum payable that year under Option I or III, or under Option II within the minimum number of years for which payments are guaranteed, shall be increased accordingly.

SPECIAL PRIVILEGES

CASH OR PREMIUM LOANS:—After payment of premiums for three or more years while this Policy is in full force the Company will loan on the sole security thereof, properly assigned, an amount which with any existing loan thereon, and with interest to the end of the current policy year on the total loan, shall be equal to, or at the option of the owner less than the limit secured by the Cash Surrender Value (The value for each \$1,000 of insurance is given in Column I of the table on page three). The loan will bear interest at the rate of six percent per annum, payable on the premium paying anniversary of the Policy, and may be paid off at any time while this Policy is in full force. If interest be not paid when due it shall bear interest, provided that at all times the entire indebtedness then outstanding shall be within the limit secured by the Cash Surrender Value; otherwise non-payment of interest shall render the Policy null and void thirty-one days after notice of such non-payment shall have been mailed to the registered address of the Insured and of the assignee, if any. Loans in payment of premium shall always be made without postponement, but the granting of other loans may be postponed, in whole or in part, for a period not exceeding six months after application therefor has been filed at the Company's Home Office, in case such course should appear necessary for the protection of the other policyholders.

PREMIUM LOANS CAN BE MADE AUTOMATIC, When this Policy has become entitled to loan values:—Upon written request of the Insured and assignee, if any, filed at its Home Office prior to default in payment of any premium, the Company, if any premium thereafter shall not be paid when due, shall charge the amount of said premium against this Policy as a loan, if the loan value then available is sufficient to cover such advance; otherwise the Company shall apply any loan value then available, to pay the premium ratably for a shorter period, at the expiration of which this Policy shall be null and void. Such loan shall be subject to the interest provisions in the previous paragraph. Notice of such advance shall be mailed to the Insured and assignee, if any, and at any time while this Policy is thus sustained in force, the payment of premiums may be resumed, without medical examination, but subject to payment of accumulated indebtedness or its settlement by regular loan secured by this Policy. No grace shall be allowed in connection with this provision.

REINSTATEMENT:—At any time after default in payment of premium, unless this Policy has been surrendered or its extension period has expired, it may be reinstated upon evidence of insurability satisfactory to the Company, and the payment on reinstatement of all arrears of premium and indebtedness, with interest thereon at six percent per annum, from date of default.

CHANGE OF BENEFICIARY:—Subject to the interest of any assignee, provided the right to change the Beneficiary has not been waived, the Insured may change and successively change the Beneficiary or Beneficiaries by notice to the Company, at its Home Office, in writing, accompanied by this Policy, such change to become effective only when endorsed hereon by the Company. If any Beneficiary shall die before the Insured, the interest of such Beneficiary shall vest in the Insured, unless otherwise expressly provided herein. If no Beneficiary is living at the death of the Insured, the proceeds under this Policy shall be payable to the executors, administrators or assigns of the Insured.

CHANGE OF PLAN:—Should the Insured desire to change this Policy to some other form of Policy, of the same class, on a standard plan, of the same amount, requiring the payment of a higher rate of premium yearly, but without Total and Permanent Disability, or Accident Indemnity Insurance Provision, except as contained in this Policy, he has, prior to default in payment of any premium, but before any claim has been filed with the Company for the benefits provided in the Total and Permanent Disability Insurance Provision, and subject to the interest of any assignee, the following options of conversion, without medical examination, before attaining the rated age of fifty five:

First: To change to any such plan then issued by the Company on the payment of the regular premium therefor, at the then age of the Insured, ~~less such premium~~ reduction of premium as may be allowed in consideration of the past payments on this Policy.

Second: To change to any such plan now issued by the Company to be counted as of the then age and date as this Policy, by paying the difference between the past payments under this Policy and the corresponding payments that would have been required for such other Policy, together with interest on such difference at the rate of six percent per annum, re-invested yearly. If past payments under this Policy include a special premium for the Total and Permanent Disability Insurance Provision, credit therefor will be allowed only if the new policy also contains that provision, and if past payments under this Policy include a special premium for the Accident Indemnity Insurance Provision, credit therefor will be allowed only if the new policy also contains that provision. Any loan value available by the terms of the new policy may be used in making settlement on conversion.

GENERAL PROVISIONS

1. This Policy does not take effect until it has been delivered to the Insured and the first premium has been actually paid, during the lifetime and good health of the Insured.

2. **PAYMENT OF PREMIUMS:**—All premiums are payable at the Home Office of the Company, but may be paid on or before the dates due to the Company's agent in exchange for the Company's official receipt, signed by one of the officers referred to below and countersigned by the agent. If any premium be not paid when due, this Policy shall be void and all premiums forfeited to the Company, except as herein provided. The premiums on this Policy are computed on the basis that they will be paid annually, in advance, but for the convenience of the Insured they may be paid semi-annually or quarterly.

3. **MODIFICATION:**—Only the President, a Vice President, the Secretary, Actuary, Assistant Secretary, or other executive officer, is empowered by the Company to make or modify this or any other contract of insurance, or to extend the time for paying any premium, or to waive any forfeiture, or to bind the Company in any manner whatsoever. These powers cannot be delegated, and must be exercised only in writing, which shall be the only evidence of such exercise.

4. **SETTLEMENT:**—Any payment or settlement hereunder shall be made at the Home Office of the Company on proper legal surrender of this Policy, and deduction shall then be made of any indebtedness to the Company hereon, including, in the event that this Policy becomes a claim during the first policy year, any deferred premium for the balance of the said first policy year. After the first policy year there shall not be any deflection of deferred premiums at the maturity of this Policy.

5. **ASSIGNMENT:**—Any assignment of this Policy must be made in duplicate, both to be sent to the Home Office of the Company, one to be retained, and the other returned. Blanks for this purpose will be furnished when desired. The Company assumes no responsibility for the validity of any assignment.

6. This Policy shall not participate in the surplus earnings of the Company.

7. Unless otherwise expressly provided by endorsement hereon, all rights under this Policy, subject to any assignment hereof, may be exercised by the Insured and for his sole benefit, without the consent of the Beneficiary.

8. **SUICIDE:**—If the Insured shall commit suicide, while sane or insane, within two years from the date hereof, this Policy shall be null and void, except for an amount equal to the sum of the premiums paid.

Page two

[illegible]

REGISTER OF CHANGE OF BENEFICIARY	
DATE CHANGED	BENEFICIARY
10-11-27	Intato-
	Secretary

62

*Exhibit I.**Statement of Financial Condition of
F. W. Jefferson as of 1935.*

Assets:

Stock pledged with Chemical Bank and Trust Company of New York	\$96,264.11
Unpledged stock, estimated	7,164.25
Cash value Life Ins. Policies, estimated	28,260.00
House and property (appraisal value)	29,700.00
	\$161,388.36

Liabilities:

Guarantee of debt of Fitzgerald Cotton Mill to Wm. Iselin & Co.	\$290,536.40
Guarantee of debt of Fitzgerald Cotton Mill to Chemical Bank and Trust Company of New York	70,500.00
Guarantee of debt of Cochran Cotton Mill to Wm. Iselin & Co.	183,902.48
F. W. Jefferson debt to Iselin-Jefferson Co.	159,000.00
F. W. Jefferson debt to Georgia Holding Co.	16,875.00
F. W. Jefferson debt to S. C. National Bank—1/3 of \$10,000.00	3,333.00
	\$724,146.88

63 Endorsed: United States Board of Tax Appeals
Filed Dec 2-1939

In the United States Court of Appeals
for the District of Columbia

B. T. A. Docket No. 93586

FLOYD W. JEFFERSON, *Petitioner on Review,*

v.

COMMISSIONER OF INTERNAL REVENUE, *Respondent on
Review.*

Praecipe

To the Clerk of the United States
Board of Tax Appeals:

You will please prepare, transmit and deliver to the Clerk of the United States Court of Appeals for the District of Columbia copies, duly certified as correct, of the following documents and records in the above entitled cause, in connection with the Petition for Review by the said Court of Appeals for the District of Columbia, heretofore filed by the above named petitioners:

1. Docket entries of the proceedings before the Board.
2. Pleadings before the Board, including:
 - (a) Amended petition and annexed copy of deficiency notice,
 - (b) Answer.
3. Opinion and decision of the Board.
4. Stipulation of Venue.
5. Petition for review, together with proof of service of notice of filing petition for review and of service of a copy of the petition for review.
- 64 6. Stipulation of facts together with joint exhibits A, C, D, E, F, G, H and I.
7. This praecipe.

GEORGE D. BRABSON,
Transportation Building,
Washington, D. C.,
*Attorney for petitioner on
review.*

Service of a copy of the within praecipe is hereby acknowledged this 2nd day of December, 1939. Agreed to

J. P. WENCHEL, w
*Attorney for respondent on
review.*

65 United States Board of Tax Appeals,
Washington.

Docket No. 93,586.

FLOYD W. JEFFERSON, *Petitioner,*

v.

COMMISSIONER OF INTERNAL REVENUE, *Respondent.*

Certificate

I, B. D. Gamble, clerk of the U. S. Board of Tax Appeals, do hereby certify that the foregoing pages, 1 to 64, inclusive, contain and are a true copy of the transcript of record, papers, and proceedings on file and of record in my office as called for by the Praecipe in the appeal (or appeals) as above numbered and entitled.

In testimony whereof, I hereunto set my hand and affix the seal of the United States Board of Tax Appeals, at Washington, in the District of Columbia, this 4th day of Dec., 1939.

B. D. GAMBLE,

Clerk,

(Seal)

United States Board of Tax Appeals.

66 Endorsed: United States Court of Appeals for
the District of Columbia Filed Jan 2-1940 Joseph
W. Stewart Clerk

In the United States Court of Appeals for the
District of Columbia.

No. 7556.

(Board of Tax Appeals Docket No. 93586.)

FLOYD W. JEFFERSON, *Petitioner on Review*,

v.

COMMISSIONER OF INTERNAL REVENUE, *Respondent on
Review*.

Stipulation as to Printing of the Record.

Whereas it appears that Exhibits E, F, G and H filed as part of the Stipulation of Facts before the Board of Tax Appeals herein, consist of four insurance policies issued by the Pilot Life Insurance Company of Greensboro, North Carolina, and

Whereas it appears that the terms and conditions of said policies, and all endorsements and assignments thereon are identical as to each of said policies,

Wherefore it is stipulated by and between the parties hereto, acting through their respective counsel, that in order to save costs of this cause, the Clerk of the United States Court of Appeals for the District of Columbia may have printed Exhibit E only, and may omit the printing of Exhibits F, G and H from the printed record herein.

GEORGE D. BRABSON,

Counsel for Petitioner on Review.

J. P. WENCHEL,

Counsel for Respondent on Review.

Endorsed on Cover: No. 7556 Jefferson, Petitioner, v. Helvering. United States Court of Appeals for the District of Columbia Filed Dec 6-1939 Joseph W. Stewart, Clerk.

United States Court of Appeals for the
District of Columbia

OCTOBER TERM, 1939.

No. 7556.

FLOYD W. JEFFERSON,
PETITIONER,

vs.

GUY T. HELVERING, Commissioner of
Internal Revenue,
RESPONDENT.

BRIEF ON BEHALF OF PETITIONER.

D. H. BLAIR,
GEORGE D. BRABSON,
404 Transportation Building,
Washington, D. C.,
Attorneys for Petitioner.

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United States Court of Appeals for the
District of Columbia

OCTOBER TERM, 1939.

No. 7556.

FLOYD W. JEFFERSON,
PETITIONER,

vs.

GUY T. HELVERING, Commissioner of
Internal Revenue,
RESPONDENT.

BRIEF ON BEHALF OF PETITIONER.

Statement of the Case.

This is an appeal from a decision of the United States Board of Tax Appeals entered July 29, 1939. The case was docketed before the Board of Tax Appeals as No. 93586. The findings of fact and opinion of the Board were promulgated July 25, 1939. The Board's opinion is reported in 40 B. T. A. 274. The petition for review was filed on October 28, 1939.

This appeal involves a deficiency in income tax for the calendar year 1935 in the amount of \$1,773.09. All of said deficiency is in controversy.

This cause originated upon a notice of deficiency issued to taxpayer on March 11, 1938, from which the taxpayer appealed to the Board of Tax Appeals. In said deficiency notice the Commissioner asserted a deficiency upon the ground that the payments of premiums upon policies of life insurance taken out by taxpayer to indemnify certain creditors against losses, were not allowable deductions from taxpayer's gross income as expenses of doing business.

The taxpayer contended that the payment of said premiums was necessary for the taxpayer in order to indemnify his creditors against losses occurring from certain mill accounts, as well as to protect taxpayer's interest in a partnership, and that taxpayer was not a beneficiary direct or indirect under said policies.

The Board decided for the Commissioner.

The Issue.

Where certain policies of life insurance were irrevocably assigned by the taxpayer to a bank and to a cotton factor under a contract to indemnify them against losses from two certain mill accounts, as well as to maintain taxpayer's services as a member of the cotton factor partnership, taxpayer being required under his contract to pay the premiums on said policies—was taxpayer entitled to deduct as a business expense the amounts paid to keep said indemnity contract in force?

Statutes and Regulations Involved.

Section 23 (a), Revenue Act of 1934, in part:

(a) Expenses.—All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered; * * *

Section 24 (a) (4), Revenue Act of 1934, in part:

(4) Premiums paid on any life insurance policy covering the life of any officer or employee, or of any personal financially interested in any trade or business carried on by the taxpayer, when the taxpayer is directly or indirectly a beneficiary under such policy;

Art. 24-3, Regulations 86:

* * * If, however, the taxpayer is not a beneficiary under such a policy, the premiums so paid will not be disallowed as deductions merely because the taxpayer may derive a benefit from the increased efficiency of the officer or employee insured. (See articles 22 (a)-3 and 23 (a)-6 to 23

(a)-9.) In either case the proceeds of such policies paid by reason of the death of the insured may be excluded from gross income whether the beneficiary is an individual or a corporation, provided the beneficiary is not a transferee of the policy for a valuable consideration.

Statement of Facts.

The facts were stipulated by the parties and are contained in the Stipulation of Facts and Exhibits filed as a part thereof (R. 20-45).

1. Taxpayer is an individual, married and a resident of New Jersey, with his place of business in New York City. He filed his income tax return for the year in question on the cash receipts and disbursements basis.

2. For several years prior to 1935 petitioner was a member of a partnership known as Iselin-Jefferson Company, of 90 Worth Street, New York City. Iselin-Jefferson Company as composed of two partners, namely, Wm. Iselin & Company, which was another partnership, and the petitioner (R. 20). The largest part of the capital of Iselin-Jefferson Company was furnished by Wm. Iselin & Company, and petitioner's contribution to the partnership was the personal services he was able to give to it as well as his contracts and associations with various textile manufacturers. Petitioner had a great deal of experience in the textile business and his knowledge and experience in that field made his services of great value as a partner in Iselin-Jefferson Company.

3. Among the mills whose business and accounts petitioner had secured for the partnership of Iselin-Jefferson Company were the Fitzgerald Cotton Mills of Fitzgerald, Georgia, and the Cochran Cotton Mills of Cochran, Georgia (R. 21). In 1931 and 1932 these two cotton mills were heavily indebted to Wm. Iselin & Company for large sums of money advanced for their accounts by Wm. Iselin & Company as factor. These two cotton mills were likewise heavily indebted to the Chemical Bank & Trust Company of New York City. The combined indebtedness of these two mills as aforesaid was in excess of \$544,938. (R. 45). In 1931 both cotton mills were so seriously pressed that they were unable to obtain any further credits or financing on their own account, and were thus faced with bankruptcy unless they could obtain credits through their factors (R. 21).

4. Petitioner's relationship as a partner in Iselin-Jefferson Company had likewise become involved in 1931 and the dissolution of that partnership was being seriously considered by Wm. Iselin & Company and by Oliver Iselin, the principal partner thereof. Wm. Iselin & Company and the Chemical Bank & Trust Company demanded that petitioner furnish them with some guaranty or agreement to indemnify them against any losses from the two mill accounts. Petitioner was also faced with the threatened dissolution of Iselin-Jefferson Company partnership if any losses were sustained by Wm. Iselin & Company by reason of the two mill accounts (R. 21).

5. Being thus threatened with the obvious collapse of the two mills unless their credit was guaranteed

and with the consequent dissolution of the Iselin-Jefferson Company partnership, petitioner agreed to personally guarantee the accounts of the two cotton mills with Wm. Iselin & Company and with the Chemical Bank & Trust Company. Having no other resources petitioner on January 29, 1931, in pursuance of his guaranty, changed the beneficiary in each of four policies of insurance issued by The Pilot Life Insurance Company of Greensboro, North Carolina, and designated Wm. Iselin & Company as sole beneficiary therein, and at the same time transferred and delivered said policies to Wm. Iselin & Company with the agreement that he would keep up the payments of the premiums thereon (R. 22; R. 10; Ex. E, R. 41; R. 48). Petitioner likewise on May 3, 1932, irrevocably assigned to Chemical Bank & Trust Company a policy of insurance in the amount of \$78,000 issued by the Jefferson-Standard Life Insurance Company of Greensboro, North Carolina, making said Bank the sole beneficiary thereof and transferred and delivered said policy to the Bank with the agreement that he would keep up the payment of premiums thereon.

6. At the time the said contracts of indemnity were made the amount of the indebtedness of the two cotton mills to Wm. Iselin & Company and to Chemical Bank & Trust Company totalled \$544,938.88. The indebtedness of the two cotton mills remained as aforesaid throughout the year in question. No change was made in said policies, and the taxpayer has continued to pay the premiums on said policies ever since. In 1935, the year in question, taxpayer paid total premiums on said policies amounting to \$7,455.14 as part of the expense of his interest in the partnership of

Iselin-Jefferson Company (R. 22; R. 45). At the end of 1935 petitioner was further indebted to Iselin-Jefferson Company in the amount of \$159,000, and to certain other creditors in the amount of \$20,208, making petitioner's total liabilities in excess of \$724,146.88. His assets as of that date amounted to only \$161,388.36, leaving the taxpayer hopelessly insolvent (R. 45).

7. The petitioner treated the payments of the premiums aforesaid as necessary expenses of keeping his contract of indemnity in force, and in his income tax return for 1935 claimed said amount as a deduction. The Commissioner upon audit of taxpayer's return disallowed the amount so claimed, upon the ground that said payments were made in connection with policies of insurance. Petitioner appealed to the Board.

Specification of Errors to be Urged.

1. The Board erred in holding that the assignments of the policies of insurance for the purposes shown did not constitute a contract of indemnity, the cost of which to petitioner was deductible as a business expense.

2. The Board erred in holding that taxpayer had failed to prove that he was not a beneficiary of the policies of insurance.

3. The Board erred in failing to hold that the assignments in question were irrevocable and that under his contract the payment of the premiums by the taxpayer was a necessary expense of protecting his interest as a partner in Iselin-Jefferson Company.

ARGUMENT.

POINT 1.

The Board erred in holding that the assignments of the policies of insurance for the purposes shown did not constitute a contract of indemnity, the cost of which to petitioner was deductible as a business expense.

If this were the ordinary case of the payment of insurance premiums pledged to secure a loan of the taxpayer, the petitioner would not be here contending for the deduction. But that is not the case.

The real issue presented here is whether or not the transfer and assignment of taxpayer's interest as beneficiary in these five policies of insurance, either by direct and irrevocable assignment of all his interest or by changing the beneficiary and designating his creditors as beneficiaries, was such a transfer *under the circumstances of this case* as to bring the transaction within the exceptions to the rule that premiums paid on life insurance policies are not ordinarily deductible.

The opinion of the Board virtually ignores the contention which the taxpayer has made throughout this case. Taxpayer has always taken the position that when the policies of insurance in question were assigned to the Bank and to Wm. Iselin & Company, and under the indemnity contract they were named the sole beneficiaries thereof—the taxpayer then ceased to be a beneficiary of said policies, and hence the premiums

were no longer in legal effect a mere payment of insurance premiums, but were in legal effect bond premiums.

Sec. 24 (a) (3), Revenue Act of 1934, makes it clear that if a taxpayer is not a beneficiary of an insurance policy directly or indirectly, then under such circumstances such premiums are deductible. Article 24-3, Regulations 86, construes the statute and applies it as follows:

“If, however, the taxpayer is not a beneficiary under such a policy, the premiums will not be disallowed as deductions merely because the taxpayer may derive a benefit from the increased efficiency of the officer or employee insured.”

The use of insurance policies in lieu of an indemnity bond or indemnity contract is nothing new in the business world. While it may not be an every day occurrence, nevertheless it has been done in many cases, where, being without other resources but having life insurance already in force, policy holders convert such insurance into an indemnity bond by assigning their beneficial interest therein to others.

Such was the financial condition of the taxpayer here. The record shows that he was hopelessly insolvent during the period in question. His liabilities exceeded his assets by some \$562,758.52 (Ex. I, R. 45). It was clearly impossible for the taxpayer to have kept the insurance policies in force or paid the premiums in question except by his assignment of those policies to his creditors under the terms and conditions as specified. If those assignments had not been made, Wm. Iselin & Company and the Bank would have

been compelled to close down on the two mill accounts at heavy losses to themselves, the partnership of Iselin-Jefferson Company would have been dissolved, and the taxpayer deprived of his only source of livelihood (R. 21).

In short, the record makes it clear that the assignments in question were the final resort which the taxpayer had to take to save the credit of the two mills and at the same time secure his services as a partner of Iselin-Jefferson Company (R. 21-22).

Those being the facts, the taxpayer did the only thing left open to him. He irrevocably assigned his beneficial interest in these five insurance policies to Wm. Iselin & Company and to the Bank. That these were irrevocable assignments is shown by the fact that the taxpayer retained no incidents of ownership whatever in those policies. After the assignments were made the taxpayer was in reality no longer a beneficiary. He had no right to designate anyone else a beneficiary. He had no right to surrender the policies for cash, or to borrow money on them or do anything else with them. The only thing which the taxpayer retained was a bare contingency—the privilege of paying off the indebtedness of the two cotton mills, thereby assuring his continued services as a member of the partnership of Iselin-Jefferson Company, and thereafter having the policies reassigned to him—which manifestly was and has proven impossible. See *Chase National Bank v. United States*, 278 U. S. 327; *Bingham v. United States*, 296 U. S. 211; *Keefe v. Broderick*, 25 F. Supp. 957.

We cannot ignore the legal effect of what was done in this case. When the taxpayer changed the beneficiaries in these five policies and specifically designated the Bank and Wm. Iselin & Company as sole beneficiaries thereof—taxpayer put into effect a train of legal consequences that he no longer could change or control. Those assignments were absolutely irrevocable so far as taxpayer was concerned. He could not revoke any of their terms or conditions. He could not recall the assignments. He could not designate anyone else as beneficiaries.

Possibly the best test of the irrevocability of these assignments is found in the fact that if the taxpayer had died in 1935 the Bank would have collected under certain of the policies and Wm. Iselin & Company would have collected under the other policies, as the sole beneficiaries thereof. The taxpayer's estate would not have received anything. See *Haskell v. Equitable Life Assurance Society*, 181 Mass. 341, 63 N. E. 899; *In re Simmons & Griffin*, 255 Fed. 521 (1st Circuit). The two beneficiaries had the absolute right to use all the proceeds to satisfy the liabilities of the two cotton mills which were already due and owing.

Where policies of insurance have been assigned prior to death, or where the beneficiary of policies changes the beneficiaries so as to leave other persons as beneficiaries at the time of his death, the proceeds of such policies are not includable in decedent's estate. *Levy's Estate v. Commissioner*, 65 F. (2d) 412 (2nd Circuit); *Lit et al. v. Commissioner*, 72 Fed. (2) 551, (3rd Circuit).

The Commissioner has apparently proceeded upon the assumption that the assignments of these five policies and the designation of Wm. Iselin & Company and the Bank as sole beneficiaries thereof, were no more than if the taxpayer had pledged securities with them to secure a loan. That assumption disregards the facts in the case as well as the legal consequences which flow from such assignments. Let us examine the record for the facts.

This transaction was not just a guaranty of the indebtedness arising from the two mill accounts. It involved other significant and controlling facts. The record shows that the taxpayer, Mr. Jefferson, was one of the partners of Iselin-Jefferson Company, cotton factors; that Mr. Jefferson's services to that partnership were invaluable because of his numerous contacts in the textile world, and because of his ability to procure mill accounts which the partnership could handle profitably (R. 20). The record shows that Mr. Jefferson had procured various mill accounts for the partnership, including the two mill accounts in question (R. 21). The record shows that these two mills were so heavily indebted to Wm. Iselin & Company (one of the partners of Iselin-Jefferson Company), that both mills faced disaster unless they could be financed in some way (R. 21). If they failed, then Wm. Iselin & Company was faced with tremendous losses, and in turn threatened the dissolution of Iselin-Jefferson Company and the loss of petitioner's services to that partnership (R. 21).

It is clear, therefore, that Wm. Iselin & Company demanded the assignment of these insurance policies

not only to save any losses from the two mill accounts, but also to secure for Iselin-Jefferson Company the continued and invaluable services of the taxpayer, and the consequent dissolution of that partnership. In other words, Iselin-Jefferson Company had a stake in this continued life and services of the taxpayer as a member of that partnership, and to insure his continued services one of the partners (Wm. Iselin & Company) demanded some indemnity to itself in the event Mr. Jefferson should die.

This case is unique in that it presents these two separate aspects, in both of which a distinct business purpose was served. There were four separate parties to the transaction in question, all of whom were directly interested in and affected by it. These were the taxpayer himself, Iselin-Jefferson Company of which he was a partner, Wm. Iselin & Company the second partner of Iselin-Jefferson Company, and finally the Chemical Bank and Trust Company. In its first aspect the transaction in question may properly be regarded as a contract of indemnity of the two accounts of the Fitzgerald and Cochran Cotton Mills, for the purpose of protecting Wm. Iselin & Company and the Chemical Bank & Trust Company against loss. In its second aspect the transaction was in the nature of a contract of insurance whereby Iselin-Jefferson Company could be assured of the continued services of the taxpayer as a member of that partnership or be otherwise faced with dissolution.

In the last analysis, therefore, the question here presented is whether or not the payment of these premiums *under the terms of the assignment contracts* can

be deemed to have been made primarily for the purpose of preserving the status of the two mill accounts and maintaining the partnership of Iselin-Jefferson Company—or were they for the personal benefit of the taxpayer. In other words, if the payment of insurance premiums is to serve the necessary purposes of a business enterprise and is not to serve the personal purposes of the person whose life is insured—such payment is a business expense, and is not a personal one. This distinction is made clear in the Commissioner's own rulings in *I. T. 1340*, C. B. I-1, p. 119.

In the case of *Omaha Elevator Company*, 6 B. T. A. 817, a corporation took out certain policies of insurance on the lives of its officers, naming itself as beneficiary. At the same time, however, the corporation made a separate contract with those officers under which the corporation agreed to assign the proceeds of the policies when matured to the nominees of the officers so insured. *No assignments had been made up to or during the years in question.*

Upon the above state of facts the Board held that such premiums were not deductible for two reasons, because under the facts the corporation might have either (a) discharged the persons insured without ever actually assigning the proceeds of the matured policies, or (b) the corporation might have cancelled the policies of insurance after a given period and thereby become entitled to the cash surrender value thereof. The Board very plainly stated, however, that these were the reasons for denying the deduction, and very plainly inferred if there had been *an actual assignment* of the benefits of the policies, the premiums *would have been deductible.*

The principle of the *Omaha Elevator Company* case is clearly applicable in the instant case. Here there was no mere agreement *to assign* the proceeds of the policies at some future date with the obvious possibility of some future benefit to the taxpayer if no assignment was ever made. On the other hand, in the instant case the assignments were already made and completed and the policies delivered to the assignees long prior to the taxable year in question. The assignees in legal effect became the beneficiaries of those policies, and indeed under four of the policies the assignees were *specifically named as beneficiaries*.

In other words, in this case, in the event of the death of the person insured—Mr. Jefferson—it is clear that the proceeds of the insurance policies would have been paid to the assignees, and *not* to Mr. Jefferson's estate. If that had not been the case, then the assignments would have been worthless to Wm. Iselin & Company and to the Bank. In short, the difference between this case and the *Omaha Elevator Company* case lies in the fact that in the Elevator Company case there was only a contract *to assign* which was not completed and which could have been changed by cancelling the policies or by discharging the persons insured, neither of which conditions could possibly obtain in this case, because the assignments were already made and irrevocable as far as the taxpayer was concerned.

Upon the facts of record it seems plain that the taxpayer as a member of the partnership of Iselin-Jefferson Company was called upon to furnish a guaranty or indemnity which would assure that partnership

his continued services and business contacts, would protect Wm. Iselin & Company (the principal partner) from loss from the two mill accounts, and would thereby save the Iselin-Jefferson Company itself from dissolution. That is unmistakably the meaning of the stipulated facts (R. 21, 22).

In the light of these undisputed facts the assignment of those policies of insurance was in legal effect the same as if a surety bond had been purchased guaranteeing to Iselin-Jefferson Company the taxpayer's continued services as a member of that partnership. If the taxpayer had been able to do so and had furnished the ordinary commercial surety bond guaranteeing the continuation of his services, business contacts, *et cetera*, instead of assigning this insurance, then no question as to the deductibility of its cost would have arisen. It has been repeatedly held and there are rulings of the Bureau to the effect that the cost of such undertakings is an ordinary and necessary business expense. *T. D. 2090*, 16 Treasury Decisions 259; *O. D. 878*, C. B. 4, 124. And that is true notwithstanding the fact that the cost of such surety bonds is not a regular or recurrent expense. *Kornhauser v. United States*, 275 U. S. 145.

In *T. D. 2090*, *supra*, an employee of a business corporation was obliged to furnish a surety bond to guarantee certain responsibilities which he assumed as a part of the conditions of his employment. He paid a premium to a bonding company which furnished the surety bond making the employer the beneficiary thereof. The Bureau ruled that the payments of the premiums under the surety bond were a neces-

sary incident to the taxpayer's employment, and hence were an expense of his business which he was entitled to deduct, and were not a personal expense.

Again, in *O. D. 878, supra*, the Bureau held that premiums paid on account of indemnity bonds furnished by Government employees in connection with responsibilities assumed by public officers such as collectors, marshals, and so forth, constitute allowable deductions by such officers in computing their net income.

In commenting upon the correctness of such rulings *Montgomery* in his "*Federal Income Taxes*" states further: "If the premium is paid by the employer, the payment is deductible as a business expense by the employer." *Montgomery, Federal Taxes*, p. 355.

In other words, the Bureau has recognized that the cost of premiums paid in connection with a contract of guaranty or indemnity may constitute a business expense. This being true, if the facts show in a given case that the assignment of insurance policies has been made for exactly the same purpose, it is difficult to see why the latter transaction does not constitute as much a business expense as the former. In other words, if the parties to a transaction agree to the assignment of a policy of insurance *in lieu of taking out a surety bond*, for the purpose of indemnifying one of the parties against loss of services, business contacts or what not, the business purpose of the transaction is the same as if an ordinary surety bond had been given—*regardless of the difference in form*.

It should now be manifest to the Court that this is not the ordinary case of where an individual pays insurance premiums on his life, and seeks to deduct the cost as business expenses. This is a case where there was an *assignment* of insurance solely to effect necessary business purposes, guaranteeing to certain parties business accounts which the taxpayer had personally secured, and insured to certain parties the continuation of the taxpayer's services and contacts and preserving the taxpayer's business from dissolution.

The taxpayer is aware of the decisions of the Board of Tax Appeals and of the Courts in the cases of *J. H. Parker*, 13 B. T. A. 115; *Julius S. Rippel*, 12 B. T. A. 438; *Rieck v. Heiner*, 25 F. (2d) 453; and *Klein v. Commissioner*, 84 F. (2d) 310. But in none of those cases was there present the element which distinguishes this case from the general rule and brings it under the exception recognized by statute and given effect in the Bureau's rulings. See *I. T. 1340, supra*. In none of the above cited cases was the insurance issued or assigned for the purpose of securing the continuation of the taxpayer's business contacts, personal services, and so forth, which were necessary for the preservation of a business enterprise, such as we have here.

This distinction is recognized as sound in the case of *Omaha Elevator Company, supra*, and is also recognized in the case of *L. Hyman & Co.*, 21 B. T. A. 159. In that case, while the Board disallowed the taxpayer's claim for deduction of insurance premiums paid upon the lives of its officers *for lack of proof that*

the premiums were actually paid by the taxpayer—yet the Board recognized that such premiums *would be deductible* if the facts had been properly proved. As the Board there said:

“Petitioner has failed to offer any evidence regarding some of the *elemental facts* necessary to establish the deductibility of these premiums; unexplained contradictions and confusions, moreover, occur in the evidence introduced.”

And again said the Board:

“With reference to the policies affected by the resolution of December 8, 1929, of which the S. Hyman Company was then beneficiary, there is no evidence whatever tending to show that the beneficiary was *in fact changed* as contemplated by the resolution.” (Emphasis supplied).

From the language of the Board in the *Hyman* case we take it that the “elemental facts necessary to establish the deductibility of the premiums” would be first, proof of actual payment by the taxpayer, and second, proof that the beneficiary named in the policies was actually changed to some person other than the taxpayer. Both of these “elementary facts” have been stipulated as facts in the instant case.

POINT 2.

The Board erred in holding that there was not sufficient proof that the taxpayer would not benefit directly or indirectly from the policies of insurance.

This holding of the Board, while not clearly stated, is based apparently upon the theory that the taxpayer *might* become a beneficiary of the policies again *if the*

proceeds of the policies were not needed to take care of the two mills' accounts.

It seems to us that there are two answers to that. In the first place, the Board's decision is based upon a pure speculation as to something which *might* happen sometime in the future, which is in turn based upon three contingencies, to-wit:

(1) *If* the two insolvent cotton mills become solvent and able to pay their debts in full, maybe ten years from now, and

(2) *If* the taxpayer is able to pay \$7,769.54 each year in premiums on the policies, and

(3) *If* the taxpayer happens to be living if, as, and when those debts are paid.

We respectfully submit that the revenue acts do not require a taxpayer's liability for income taxes to be determined upon the basis of contingencies which may or may never occur. The revenue laws are construed in the light of the realities and the *present conditions obtaining* in the taxpayer's business not upon remote possibilities of some change which may occur in the taxpayer's affairs at some time in the future. *North American Oil Consolidated v. Burnet*, 286 U. S. 417; *Burnet v. Logan*, 283 U. S. 404; *Teck Hobbs*, 26 B. T. A. 241; 25 R. C. L. "Statutes", sec. 215.

In *North American Oil Consolidated v. Burnet*, *supra*, the Court said:

"There was no constructive receipt of the profits by the company in that year, because at no time during the year was there a right in the company to demand that the receiver pay over the money. Throughout 1916 it was uncertain who would be

declared entitled to the profits. It was not until 1917, when the District Court entered a final decree vacating the receivership and dismissing the bill, that the company became entitled to receive the money. Nor is it material, for the purposes of this case, whether the company's return was filed on the cash receipts and disbursements basis, or on the accrual basis. In neither event was it taxable in 1916 on account of income which it had *not yet received and which it might never receive.*" (Emphasis supplied.)

"The same general rule applies to losses or expenses claimed as to deductions. *United States v. Anderson*, 269 U. S. 422; *United States v. White Dental Co.*, 274 U. S. 398." *Commissioner v. R. J. Darnell, Inc.*, 60 F. (2d) 82.

As the Circuit Court of Appeals, Ninth Circuit, said in *Lichtenberger Co. v. Welch*, 54 F. (2d) 570:

"Under whatever system the taxpayer makes his return, the items of income and deductible expenses must have relation to the *business done within the year* for which the income tax is paid. The District Judge who heard this case properly said [49 F. (2d) 304, 305]: 'The taxing department, under section 212 of the Revenue Act of 1918 (40 Stat. 1064), had the right to make the computation upon a basis which would clearly reflect the income, and no implied right to *deduct expenses for the ensuing year* can be read into the provision or into the promulgated regulations.' " (Emphasis supplied.)

The facts show that the taxpayer's assignments of these insurance policies were irrevocable, and in the light of the circumstances were, for all practical purposes, final. The two mills were indebted to William Iselin & Co. and Chemical Bank & Trust Co. in

the total amount of over \$544,938. The facts show that both mills were so badly indebted that neither could obtain further credit, and that they would both have been forced to cease operating—in short stop business and fold up, unless the taxpayer had assigned his insurance to their creditors, as he did (R. 21-22).

Such were the conditions at the end of 1935, the taxable year in question. Those were the facts which faced the taxpayer in making out his income tax return for that year. He was not required by the revenue acts to be an “incorrigible optimist”, as the Court said in *White Dental Manufacturing Co. v. U. S.*, *supra*. He was entitled to treat the two mill accounts *as they actually were*—not as they *might be* if, as and when certain contingencies happened, ten years later perhaps.

The second point which will be raised by the Commissioner in this case is that the taxpayer might still have been an indirect beneficiary in the event of his death, because the claims against his estate would have been reduced by the amount of the insurance in question. That contention does not have much force in view of the taxpayer's indebtedness and admitted insolvency during the year in question, to the extent of several times his assets. This argument has been advanced by the Commissioner before and has been rejected by the Board and by the courts in other types of cases. The same argument was made by the Commissioner in the case of *Porte Quinn*, 31 B. T. A. 142. There the taxpayer, an individual, being heavily indebted, deeded certain properties to his creditors and was relieved of the remaining liability thereon by the

cancellation of certain mortgages. The Commissioner contended that the taxpayer had realized income through the cancellation of the remaining indebtedness and was subject to tax thereon.

The Board recognized the principle that income may be realized by the cancellation or reduction of an indebtedness, but pointed out that this rule is not applicable in a case where the taxpayer is so situated that there is *no real benefit* to him:

“But he has not realized income by being relieved from paying that which he in fact is unable to pay. ‘Gain or profit is essential to the existence of taxable income. *A transaction whereby nothing of exchangeable value goes to or is received by a taxpayer does not give rise to or create taxable income.*’ *Dallas Transfer & Terminal Warehouse Co. v. Commissioner*, 70 Fed. (2d) 95; *Burnet v. Campbell Co.*, 50 Fed. (2d) 487; *Meyer Jewelry Co.*, 3 B. T. A. 1319.

The evidence is clear that petitioner was insolvent when the Searles settlement was made and the mortgages were cancelled. Petitioner's home ‘El Bravo’ in 1929 did not have a fair market value in excess of the first mortgage of \$16,000. The real estate market in Florida was demoralized and it was practically impossible to dispose of property at any price. Nor did the petitioner realize income by reason of the cancellation of the mortgage on the 50-acre tract of undeveloped land. In 1929 this property appears to have had little, if any, value. Moreover, whatever interest petitioner had in this tract he had conveyed in June of 1929 to the Quinn Holding Co., a cooperation, which assumed petitioner's obligations under the mortgage on this undeveloped tract. This was several months before the Searles settlement took place. The cancellation of the mortgage in this case *did not*, as in *Kirby Lumber Co.*, *supra*, *make available any assets to petitioner, and we*

hold that there was no realization of income from the transaction." (Emphasis supplied).

There was a similar situation here. In the first place, taxpayer's balance sheet filed herein as Exhibit I shows that he was clearly insolvent to the extent of many thousands of dollars *wholly apart from the liabilities which he assumed of the two cotton mills*. More than that, if we take these liabilities into account, the taxpayer's indebtedness to the Bank and to Wm. Iselin & Company in the aggregate amount of some \$545,000 was far in excess of the face amount of the insurance policies which were assigned by him, so that in any event there could have been no possible equity left in those policies to benefit him or his estate. In other words, these assignments covered all the indebtedness of the mills to their creditors, and there could have been nothing left of the insurance over and above the amount of the indebtedness for which it was pledged. This is, of course, another point in which this case differs from the *Klein case* upon which the Commissioner relies. In that case the taxpayer was *not insolvent* and the insurance there was in excess of the amount for which it was put up as collateral.

The point is, of course, that this case in its final analysis has little to do with insurance. It so happened that insurance was used for an entirely different purpose than its ordinary purpose. In this case the taxpayer entered into this contract of assignment of insurance for the benefit of the partnership of which he was a member, as well as for the benefit of the other parties to the transaction. Undoubtedly the

prime purpose of the taxpayer was to secure to Iselin-Jefferson Company the continuation of his services and his contacts with various textile manufacturers and to save that partnership from dissolution, because that partnership was the taxpayer's only source of livelihood. The payment of these premiums was his sole means of continuing as a partner in a business, and of preserving the business which that partnership already had, and which was essential for it to retain. Once those payments of premiums were made, they were, of course, irrevocable and the benefits of those payments went not to the taxpayer but to the beneficiaries.

We respectfully submit that this case should be decided upon the principle of an assignment of a contract of insurance for the purpose of preserving to the partnership the taxpayer's continued services and contacts in that business, as well as to guarantee the two creditors from any loss from the two accounts.

Respectfully submitted,

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FILED MAR 27 1940

No. 7556

Joseph W. Stewart

CLERK

**In the United States Court of Appeals for the
District of Columbia**

FLOYD W. JEFFERSON, PETITIONER

v.

**GUY T. HELVERING, COMMISSIONER OF INTERNAL REVENUE,
RESPONDENT**

**ON PETITION FOR REVIEW OF DECISION OF THE UNITED
STATES BOARD OF TAX APPEALS**

BRIEF FOR THE RESPONDENT

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In the United States Court of Appeals for the District of Columbia

No. 7556

FLOYD W. JEFFERSON, PETITIONER

v.

GUY T. HELVERING, COMMISSIONER OF INTERNAL REVENUE,
RESPONDENT

*ON PETITION FOR REVIEW OF DECISION OF THE UNITED
STATES BOARD OF TAX APPEALS*

BRIEF FOR THE RESPONDENT

OPINION BELOW

The opinion of the Board of Tax Appeals (R. 9-11) is reported in 40 B. T. A. 274.

JURISDICTION

This proceeding involves a deficiency in income tax of \$1,773.09 for the year 1935. (R. 12.) The appeal is from a decision of the Board of Tax Appeals entered July 29, 1939 (R. 12), and is brought to this Court by a stipulation of venue (R. 12-13) and the taxpayer's petition for review (R. 13-18) filed October 28, 1939 (R. 19), pursuant to Sections 1141-1142 of the Internal Revenue Code.

QUESTIONS PRESENTED

1. Were the premiums paid on the taxpayer's life insurance policies personal expenses which are not deductible under Section 24 (a) (1) of the Revenue Act of 1934?

(1)

2. Was the deduction of the premiums paid on the taxpayer's life insurance policies, which were used to support his guarantee of the debts of two customers of his partnership, prohibited by Section 24 (a) (4) of the Revenue Act of 1934?

STATUTE INVOLVED

Revenue Act of 1934, c. 277, 48 Stat. 680:

SEC. 23. DEDUCTIONS FROM GROSS INCOME.

In computing net income there shall be allowed as deductions:

(a) *Expenses*.—All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered; traveling expenses (including the entire amount expended for meals and lodging) while away from home in the pursuit of a trade or business; and rentals or other payments required to be made as a condition to the continued use or possession, for purposes of the trade or business, of property to which the taxpayer has not taken or is not taking title or in which he has no equity.

* * * * *

(U. S. C., Title 26, Sec. 23.)

SEC. 24. ITEMS NOT DEDUCTIBLE.

(a) *General rule*.—In computing net income no deduction shall in any case be allowed in respect of—

(1) Personal, living, or family expenses;

* * * * *

(4) Premiums paid on any life insurance policy covering the life of any officer or employee, or of any person financially interested in any trade or business carried on by the taxpayer, when the taxpayer is directly or indirectly a beneficiary under such policy;

* * * * *

(U. S. C., Title 26, Sec. 24.)

STATEMENT

The facts as stipulated (R. 20-23) and as found by the Board (R. 9-10) may be summarized as follows:

The taxpayer, an individual, was a member of the partnership of Iselin-Jefferson Company during 1935 and for several years prior thereto. The other partner, William Iselin & Company, likewise a partnership, furnished most of the capital, while the taxpayer furnished valuable personal service and contacts with textile mills. (R. 9.)

The partnership acted as selling agent for textile mills, including the Fitzgerald Cotton Mills and Cochran Cotton Mills. These two mills were heavily indebted in 1931 to William Iselin & Company and to a bank. The mills needed additional funds to operate. The taxpayer's relationship as a partner in Iselin-Jefferson Company had also become involved so that the other partner was considering a dissolution. (R. 9-10.) The taxpayer had to furnish some additional guarantee in order to retain the accounts of the two mills and thus continue the partnership, which was his only source of livelihood. He, therefore, guaranteed the debts of the two mills to his partner and the bank, assigned a life insurance policy on his life for \$78,000 to the bank, and named his partner as beneficiary in policies on his life for \$100,000. He agreed to pay the premiums on the policies. No change was made in the policies thereafter through 1935. (R. 10.)

The taxpayer paid the premiums on those policies and also on another policy during 1935. The taxpayer does not contend that the premium upon the latter policy is deductible. The total premiums paid on all policies in 1935 was \$7,769.54, of which \$314.40, apparently, is not now claimed as a deduction. (R. 10, 17.)

The assets of the taxpayer in 1935 were worth about \$161,388.36, excluding the policies for \$178,000, above mentioned, and his interest in the partnership. The debts of the two mills which he had guaranteed amounted to \$544,038.88 in 1935. He also owed \$159,000 to his partnership and about \$20,000

to others in 1935. The financial condition of the two mills is not disclosed in the record. (R. 10.)

The taxpayer deducted \$7,769.54 on his return for 1935 as an ordinary and necessary expense of his business and the Commissioner disallowed the deduction in determining the deficiency. Other adjustments made by the Commissioner are not contested. (R. 10.)

The Board of Tax Appeals sustained the action of the Commissioner and taxpayer appeals to this Court.

SUMMARY OF ARGUMENT

The premiums paid on taxpayer's life insurance were personal expenses which are not deductible under Section 24 (a) (1) of the Revenue Act of 1934. The premiums were paid on the personal life insurance policies of the taxpayer. Only one policy was assigned. That assignment was not "irrevocable." It was mere security for the debts. If the debts were paid the policy reverted to the taxpayer. Any excess over the debts was payable to the taxpayer. In all of the other policies only the beneficiary was changed as security. The right to change the beneficiary in these policies was reserved to the taxpayer. The use of these policies as a guarantee is no different from using personal life insurance policies to borrow money. In that case the premiums would not be deductible. This case bears no analogy to the payment of indemnity bond premiums.

Deductions are not a matter of right but of grace and the taxpayer claiming a deduction must bring his case squarely within the terms of the statute.

The deduction as a business expense of the premiums paid on the life insurance policies is expressly prohibited by Section 24 (a) (4) of the Revenue Act of 1934 because the taxpayer was indirectly a beneficiary under the policies. The decided cases so hold. There was no "irrevocable" assignment of the policies. The record fails to establish the insolvency of the taxpayer or the extent of his liability under the guarantee agreement because there is no showing of the assets of the mills whose accounts were guaranteed.

ARGUMENT

I

The premiums paid on taxpayer's life insurance policies were personal expenses which are not deductible under Section 24 (a) (1) of the Revenue Act of 1934

In essence, this case differs in no fundamental respect from that of the payment of premiums on any personal life insurance policy. Such payments, being personal expenses, are not allowed as deductions under Section 24 (a) (1) of the Revenue Act of 1934. Article 24-1 of Regulations 86; *Phillips v. Commissioner*, 24 B. T. A. 98, 101.

The taxpayer was the person insured and it was his personal insurance at all times. To whom the proceeds of the policies were ultimately to be paid is wholly immaterial, whether to his family, to his estate, or to his business. The insurance still remains personal as to him and he personally pays the premiums.

It is a far cry to attempt to translate the payment of such premiums into a deductible business expense.

The taxpayer or his estate was the beneficiary in each of the policies prior to the assignment or the change of beneficiaries. The taxpayer reserved the right to change the beneficiary in the Jefferson Policy for \$10,000. (Ex. C, R. 29.) See "General Provisions" of the policy, paragraph 5. (R. 30.) This policy was not assigned by the taxpayer but his partner was named as beneficiary. (R. 10, 22, 32.)

The taxpayer also reserved the right to change the beneficiary in the Pilot Policy for \$25,000. (Ex. E, R. 41.) See "Special Privileges" of the policy, paragraph 4. (R. 43.) This policy was not assigned by the taxpayer but his partner (the partnership of William Islen and Company) was named as beneficiary. (R. 10, 44.) The same right to change the beneficiary was reserved as to the other Pilot Policies (Exs. F, G and H), omitted from printing by stipulation (R. 48). The Pilot Policies totalled \$100,000. (R. 10, 22.)

The Jefferson Policy for \$78,000 (Ex. D, R. 33) was assigned to the Chemical Bank and Trust Company of New

York. (R. 37.) Under "General Provisions" of the policy, paragraph 5 (R. 35), the taxpayer did not have the right to change the beneficiary after the assignment.

The taxpayer argues (Br. 10, 11, 21) that these policies were "irrevocably assigned." There is nothing in the record, the findings of the Board (R. 10), or the stipulation of facts (R. 22) to support the use of the word "irrevocably." The facts are that the policy of \$78,000 was assigned to the bank. (R. 10, 22.) The assignment (R. 37) is in the usual form and reserves the right of the taxpayer to any sum due under the policy in excess of indebtedness owed the assignee.

As to the other policies, there was no assignment but a mere change in designated beneficiary (R. 10, 22) and, as pointed out above, under the terms of the policies the taxpayer still reserved the right to change the beneficiary.

In this case, the taxpayer was using his personal life insurance as collateral to guarantee the payment of accounts due, his partnership and a creditor bank, from mills which were customers of the partnership and borrowers from the bank.

How does such a pledge or guarantee convert the premiums paid on his personal insurance into business expenses? In essence, it differs in no respect from using personal insurance to borrow money. In that case, the premiums paid would not be deductible.

In *McKay v. Commissioner*, 10 B. T. A. 949, amounts paid by a partner of a portion of the insurance premiums on policies on the lives of himself and his partners, which were assigned to the partnership under an agreement that the proceeds be paid by the partnership to the estate of a deceased partner in full for his partnership interest, were disallowed as deductions.

In *Barron v. Commissioner*, 14 B. T. A. 1022, premiums paid on insurance taken to secure a loan to the taxpayer were disallowed. And in *Rippel v. Commissioner*, 12 B. T. A. 438, premiums paid on policies taken out for the protection of a creditor were disallowed.

Looking at the substance of this transaction from a practical standpoint, it is apparent that the guarantee of the credit accounts, supported by the policies of insurance, was no more

than a contingent liability, as far as the taxpayer was concerned, during the taxable year in question, 1935.

The assignee bank and the partnership beneficiary could only receive the proceeds of these policies of insurance if: (1) The taxpayer died, and (2) if, on his death, the mills had not paid off their indebtedness, or (3) the taxpayer had not himself paid it off, or (4) some arrangement was not made whereby other security was substituted for the policies and they were returned to the taxpayer.

In other words, the taxpayer's personal insurance was used as a mere guarantee, subject to contingencies, and all rights under the policies might revert to the taxpayer unfettered by the assignment or the then designated beneficiary.

The insurance policies as such remain personal and premiums paid are still personal expenditures. Neither the bank nor the partnership would get anything unless the taxpayer died before the above contingencies had been determined. They had not been determined in the year 1935, the year in which the taxpayer claims the deduction of the premiums paid.

How can this insurance be considered other than personal and the premiums paid other than personal expenses of this taxpayer?

Taxpayer argues (Br. 8-10, 15-17) that the payment of the insurance premiums was in legal effect the same as payment of an indemnity bond premium which would be deductible. The taxpayer cites (Br. 14-18) certain office decisions (O. D.) and income tax rulings (I. T.).

The force to be given such rulings is clearly expressed by the Supreme Court in the case of *Helvering v. N. Y. Trust Co.*, 292 U. S. 455, when it said (p. 468):

The rulings, I. T. 1379, 1660 and 1889, cited by the Commissioner were made before the passage of the 1924 Act but they "have none of the force or effect of Treasury Decisions and do not commit the Department to any interpretation of the law." See cautionary notice published in the bulletins containing these rulings. It does not appear that the attention of Congress had been called to any such construction.

And even a treasury regulation cannot either limit the provisions of the statute or define the boundaries of constitutional application. It cannot exempt from tax where no exemption is intended. It cannot hold that taxable income under the statute is not income and not taxable. *Helvering v. Powers*, 293 U. S. 214, 224; *Helvering v. Gerhardt*, 304 U. S. 405, 423.

While bond premiums have been allowed as a deductible business expense, it does not follow that premiums on the life of the insured are deductible under any circumstances. Such premiums are not deductible because they are personal expenses.

The outstanding distinction lies in the fact that in no case can the proceeds of an indemnity bond be received by the person bonded. He cannot benefit as the proceeds go to some one else.

Since Congress has not seen fit to grant a deduction for premiums paid on personal life insurance, the amounts here claimed are not deductible.

Deductions are not a matter of right but of grace and the taxpayer claiming a deduction must bring his case squarely within the terms of the statute. *New Colonial Co. v. Helvering*, 292 U. S. 435, 440; *White v. United States*, 304 U. S. 281, 292; *Helvering v. Ind. Life Ins. Co.*, 292 U. S. 371, 381.

Tax laws should be construed to carry out the intent and design of the legislature, considering both the necessity for the legislation and the purposes which induced its enactment. *Helvering v. N. Y. Trust Co.*, 292 U. S. 455, 464-465; *Helvering v. Morgan's, Inc.*, 293 U. S. 121, 126.

The determination of the Commissioner is *prima facie* correct and the burden is upon the taxpayer claiming a deduction to prove that the determination was erroneous. *Old Mission Co. v. Helvering*, 293 U. S. 289, 294; *Helvering v. Taylor*, 293 U. S. 507, 514; *Welch v. Helvering*, 290 U. S. 111, 115.

That burden has not been met in this case. Furthermore, deduction of these premiums is prohibited by Section 24 (a) (4) of the Revenue Act of 1934.

II

Deduction of the amount of premiums paid is specifically prohibited by Section 24 (a) (4) of the Revenue Act of 1934

Section 24 (a) (4) of the Revenue Act of 1934 prohibits the deduction of premiums paid on life insurance "when the taxpayer is directly or indirectly a beneficiary under such policy".

The taxpayer was indirectly a beneficiary under these policies of insurance.

Congress has clearly indicated its purpose to remove from the class of deductible business expenses all premiums paid on insurance policies covering the life of any officer, employee, or person financially interested in the business of a taxpayer, when he is directly or indirectly the beneficiary under such policy. That is true whether or not such premium might otherwise be regarded as a business expense.

The taxpayer is indirectly a beneficiary under the policy where there is a possibility of the payment of the proceeds of the policy in satisfaction of a liability of the taxpayer. An individual taxpayer receives a direct benefit from a policy insuring his own life, naming the creditor as beneficiary, in that the proceeds may be applied in satisfaction of a personal obligation. This is also true where the money is procured for present use in his business.

As shown above, only one policy was assigned. In all of the others the beneficiary was changed and the taxpayer reserved the right in those policies to further change the beneficiary.

However, whether or not the taxpayer reserved the right to change the beneficiary is immaterial and it has been so held in *Klein v. Commissioner*, 84 F. (2d) 310 (C. C. A. 7th). In that case the taxpayer assigned certain life insurance policies to a bank, which, as trustee, was named as the beneficiary, to secure a loan of the taxpayer. The right to change the beneficiary was not reserved in the policies. Taxpayer paid the premiums on the assigned policies and sought to deduct the amount as a business expense. The court held that the deduction was excluded by Section 215 (a) (4) of the

Revenue Act of 1926, which is the same as Section 24 (a) of the Revenue Act of 1934, and that the failure to reserve the right to change the beneficiary did not affect the basic question. The court said (p. 311):

Petitioner seeks to avoid the application of the Rieck Case, *supra*, on the ground that there the beneficiary was the taxpayer's estate and here it was a creditor. * * *

* * * * *

Aside from the authorities which hold adversely to petitioner, we are unable to give to section 214 (a) (1), Revenue Act of 1926 (44 Stat. 26, 26 U. S. C. A. § 23 and note) the construction for which petitioner contends in this case. * * *

As to Section 215 (a) (4) the court said (pp. 311-312):

Section 215 (a), 44 Stat. 28 (26 U. S. C. A. § 24 and note) deals directly with premiums paid on life insurance and should be read with section 214 (a). * * *

* * * * *

This subsection specifically narrows the deductions in the way of premiums paid on life insurance. It excludes the premium paid by petitioner, for he was indirectly, if not directly, a beneficiary under said policy.

In *Rieck v. Heiner*, 25 F. (2d) 453 (C. C. A. 3d), the taxpayer took out life insurance at the instance of a creditor to be used as collateral in securing a loan. The policy was on the life of the taxpayer and his estate was the named beneficiary. The policy was assigned to and held by the creditor. The taxpayer sought to deduct the premiums as a business expense. In denying the deduction the court said (pp. 454-455):

On the pleadings we accept as true the statement that the taxable took out the insurance on the insistence of a creditor to be used as collateral in securing a loan and in this way the insurance transaction had its rise in a business need. But the policy was on the life of the taxable and his estate was the named beneficiary.

Though assigned to and held by the creditor and for two years used as collateral security, it was, none the less, a policy in which the taxpayer was "directly or indirectly" a beneficiary, for if it had matured when held as collateral, and payment had been made to the creditor, it would indirectly have augmented his estate by decreasing his liabilities. Or if it had matured after it was returned to him by the creditor and payment had been made to the estate the taxable would have benefited directly. The inhibitions against deduction of premiums paid on a life insurance policy are directed against the diminution of income as a subject of taxation which is not to be diminished by the uses to which a policy may be put, just as income from personally owned bonds is the subject of taxation and not deductible as a business expense when the bonds are used as collateral security in the course of business dealings. The deduction was properly disallowed and the additional taxes validly assessed.

The Board has consistently ruled against the allowance of the claimed deduction to individuals in similar cases.

Thus, in *Parker v. Commissioner*, 13 B. T. A. 115, the taxpayer had become so financially involved that bankruptcy proceedings were instituted by his creditors. By agreement with his creditors the taxpayer took out life insurance naming the creditors as the beneficiaries. The Board denied a deduction of the premium paid, saying (p. 116):

We need not repeat the discussion in these cases to the effect that the beneficiary contemplated by section 215 (a) (4) is not necessarily confined to the person named in the policy, but may include one whose interests are indirectly favorably affected thereby.

In the present case it does not appear from the alleged facts that in no event would the petitioner benefit from the policy. While this would depend upon the terms of the policy and also the agreement with the creditors, it may be supposed that if the policy survives the liquidation of the petitioner's indebtedness it will

thereafter enure either directly or indirectly to his benefit. And if this be so, the Commissioner correctly held that during this taxable year the premium was paid upon a policy of which the petitioner was directly or indirectly the beneficiary. We can not conclude that the respondent was in error and that section 215 (a) (4) did not apply from the fact that the "creditors of the taxpayer were the beneficiaries of the policy" as alleged in the petition.

In *Nussbaum v. Commissioner*, 19 B. T. A. 868, insurance premiums, paid by one partner on a policy on his own life in which the other partner was named as beneficiary, were not allowed as deductions. The Board said (p. 871):

While the exact meaning which may be given to the word "indirectly" in the above provision may not be self-evident, we think that the fact that Congress saw fit to use the words "directly or indirectly" evidences an intent to include within its provisions persons other than those commonly called beneficiaries within the narrow use of the term. * * *

Taxpayer seeks to avoid the force of the above decisions by arguing (Br. 10, 11, 21) that the policies were "irrevocably assigned". But there is nothing in the record, the findings of the Board (R. 10), or the stipulation of facts (R. 22) to warrant the conclusion that the policies were "irrevocably" assigned. As pointed out under Argument I, they were not so assigned. Only the policy to the bank was assigned and that assignment (R. 37) was in the usual form and reserves to the taxpayer any sum due under the policy in excess of the indebtedness to the bank.

Taxpayer argues (Br. 22-24) that because of the insolvency of the taxpayer in 1935 he could not benefit directly or indirectly from the policies of insurance. It is difficult to see what bearing the solvency or insolvency of the taxpayer in 1935 has to do with the question of whether he is indirectly a beneficiary under the policies.

Under Section 24 (a) (4) the question is whether the taxpayer is a beneficiary when the policies mature and when the

proceeds of the policies are paid. The situation is not viewed as of 1935 but at the time of taxpayer's death. Will his estate be indirectly benefited at that time from the proceeds of the policies?

But assuming that there is some pertinency in the taxpayer's financial status in 1935, there is no finding of insolvency by the Board and the statement of taxpayer's financial condition (Ex. I, R. 45) shows merely assets and liabilities of the taxpayer as of 1935. That statement does not prove insolvency.

In the first place, insolvency of the taxpayer is not shown unless the debts which the taxpayer guaranteed are included in full among his liabilities. While it is recognized that such a guarantee created a contingent liability, the amount the taxpayer might ultimately be called upon to pay in satisfaction of his guaranty cannot be determined without a showing of the assets of the primary debtors available for the creditors' claims at the time the policies mature.

There is no showing of the value of the assets of the debtor mills at any time, nor does this record show that the mills would never be able to discharge their own debts in full or in part and thus relieve the taxpayer of his guarantee. The Board so found. (R. 11.)

Furthermore, even if insolvency is admitted, the fact remains that the taxpayer or his estate will receive a direct benefit from the proceeds of the insurance policies since his liabilities will be reduced by the amount of such payments. Cf. *Parker v. Commissioner*, *supra*, where the taxpayer was insolvent.

The policies in *Klein v. Commissioner*, 84 F. (2d) 310 (C. C. A. 7th); *Rieck v. Heiner*, 25 F. (2d) 453 (C. C. A. 3d); *Barron v. Commissioner*, 14 B. T. A. 1022, were used as collateral by a primary debtor, while here they were used to support his guarantee. Any fundamental difference between the two situations is not apparent.

The cases of *Omaha Elevator Co. v. Commissioner*, 6 B. T. A. 817, cited by the taxpayer (Br. 14, 18) and *L. Hyman & Co., Inc. v. Commissioner*, 21 B. T. A. 159, cited by the taxpayer (Br. 18, 19) do not help him. The Board so found. (R. 11.)

In the *Omaha* case the taxpayer corporation took out insurance policies on the lives of certain of its officers and employees, naming itself as beneficiary in each policy, but by a separate contract with each officer and employee, agreed to pay over the proceeds to beneficiaries named by the insured if death occurred during employment, or, if the insured lived and continued in the service of the company for 20 years, to turn the policy over to him. The Board held the premiums were not deductible by the corporation as business expenses.

In the *Hyman & Co.* case the deduction of premiums on policies of insurance on the lives of its officers and stockholders was disallowed for failure to prove (1) actual payment, (2) the amount of premiums and other compensation paid to determine the reasonableness, (3) that the premiums were in fact salaries rather than the distribution of profits, and (4) that wives of the officers were substituted as beneficiaries of the policies.

The Board has consistently ruled that premiums are not deductible as business expenses when paid by corporations upon policies of insurance on the lives of officers and stockholders taken out to secure loans to the corporation. *Hewett Grain & Provision Co. v. Commissioner*, 14 B. T. A. 281; *Joy Floral Co. v. Commissioner*, 7 B. T. A. 800; *Williamson Veneer Co. v. Commissioner*, 10 B. T. A. 1259.

In view of the clear prohibition of Section 24 (a) (4) of the Revenue Act of 1934, the deduction of these premium payments should be denied.

CONCLUSION

The decision of the Board of Tax Appeals should be affirmed.

Respectfully submitted.

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MARCH, 1940.

